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To: Councillor Cooke, Convener; Councillor MacGregor, Vice-Convener; and Councillors Alphonse, Davidson, Henrickson, Massey and van Sweeden (Pensions Committee); Councillor Smith, Chairperson; Mr G Walters, Vice-Chairperson; Councillors Gordon and Mennie; and Mrs M Lawrence, Mr N Stirling and Mr A Walker (Pension Board).

Town House,
ABERDEEN, 5 September 2024

PENSIONS COMMITTEE AND PENSION BOARD

The Members of the **PENSIONS COMMITTEE AND PENSION BOARD** are requested to meet in **Committee Room 2 - Town House on FRIDAY, 13 SEPTEMBER 2024 at 10.00 am**. This is a hybrid meeting and Members may also attend remotely.

The meeting will be webcast and a live stream can be viewed on the Council's website. <https://aberdeen.public-i.tv/core/portal/home>

ALAN THOMSON
INTERIM CHIEF OFFICER – GOVERNANCE

B U S I N E S S

NOTIFICATION OF URGENT BUSINESS

1.1. There are no items of urgent business at this time

DETERMINATION OF EXEMPT BUSINESS

2.1. Members are requested to determine that any exempt business be considered with the press and public excluded

DECLARATIONS OF INTEREST AND TRANSPARENCY STATEMENTS

3.1. Members are requested to intimate any declarations of interest

DEPUTATIONS

4.1. There are no deputations at this time

MINUTES OF PREVIOUS MEETINGS

- 5.1. Minute of Previous Meeting of 28 June 2024 - for approval (Pages 5 - 10)

COMMITTEE BUSINESS PLANNER

- 6.1. Business Planner (Pages 11 - 14)

NOTICES OF MOTION

- 7.1. There are currently no motions to the Pensions Committee

INTERNAL AND EXTERNAL AUDIT

- 8.1. NESPF Annual Audit Report and Covering Letter (Pages 15 - 52)

ANNUAL REPORT AND ACCOUNTS

- 9.1. Consideration and Signing of Audited Annual Report and Accounts - PC/SEPT24/ARA (Pages 53 - 168)

SCRUTINY

- 10.1. Strategy - PC/SEPT24/STRAT (Pages 169 - 260)

EXEMPT BUSINESS - NOT FOR PUBLICATION

- 11.1. Asset and Investment Manager Performance Report - PC/SEPT24/AIMPR
(Pages 261 - 324)
- 11.2. Investment Strategy - PC/SEPT24/INVSTRAT (Pages 325 - 330)
- 11.3. Procurement - PC/SEPT24/PRO (Pages 331 - 338)

Integrated Impact Assessments related to reports on this agenda can be viewed [here](#)

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Website Address: aberdeencity.gov.uk

Should you require any further information about this agenda, please contact Stephanie Dunsmuir, email sdunsmuir@aberdeencity.gov.uk

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PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 21 June 2024. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- Councillor Cooke, Convener; Councillor MacGregor, Vice-Convener; and Councillors Alphonse, Davidson, Henrickson, Massey and van Sweeden (Pensions Committee); and Mrs M Lawrence, Chairperson; Councillor Smith, Vice Chairperson; Councillors Gordon and Mennie; Mr A Walker and Mr G Walters (Pension Board).

Also in attendance:- Jonathan Belford, Chief Officer – Finance; Laura Colliss, Pension Fund Manager; Graham Buntain, Investment Manager; and Jamie Dale, Chief Internal Auditor.

The agenda and reports associated with this minute can be found [here](#).

Please note that if any changes are made to this minute at the point of approval, these will be outlined in the subsequent minute and this document will not be retrospectively altered.

DETERMINATION OF EXEMPT BUSINESS

1. The Committee was requested to determine that the following items of business which contained exempt information as described in Schedule 7(A) of the Local Government (Scotland) Act 1973 be taken in private – Items 11.1 (Procurement), 11.2 (Asset and Investment Manager Performance Report) and 11.3 (Investment Strategy Update).

The Committee resolved:-

in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, to exclude the press and public from the meeting during consideration of the above-mentioned items so as to avoid disclosure of exempt information of the classes described in paragraphs 6, 8 and 12.

DECLARATIONS OF INTEREST AND TRANSPARENCY STATEMENTS

2. There were no declarations of interest nor transparency statements made.

MINUTE OF PREVIOUS MEETING OF 22 MARCH 2024

3. The Committee had before it the minute of its previous meeting of 22 March 2024 for approval.

The Committee resolved:-

to approve the minute as a correct record.

PENSIONS COMMITTEE AND PENSION BOARD

21 June 2024

COMMITTEE BUSINESS PLANNER

4. The Committee had before it the business planner as prepared by the Interim Chief Officer – Governance.

The Committee resolved:-

to note the planner.

INTERNAL AUDIT ANNUAL REPORT 2023/24 - IA/24/008

5. The Committee had before it a report by the Chief Internal Auditor which presented the Internal Audit Annual Report for the North East Scotland Pension Fund for 2023/24.

The report recommended:-

that the Committee –

- (a) note the Annual Report for 2023/24;
- (b) note that the Chief Internal Auditor had confirmed the organisational independence of Internal Audit;
- (c) note that there had been no limitation to the scope of Internal Audit work during 2023/24; and
- (d) note the progress that management had made with implementing recommendations agreed in Internal Audit reports.

The Committee resolved:-

to approve the recommendations.

UNAUDITED ANNUAL REPORT AND ACCOUNTS - PC/JUN24/ARA

6. The Committee had before it a report by the Chief Officer – Finance which presented the unaudited Annual Report and Accounts for the North East Scotland Pension Fund.

The Committee heard from Mr Belford in respect of the report and asked a number of questions.

The report recommended:-

that the Committee review and consider the unaudited Annual Report and Accounts for the North East Scotland Pension Fund.

The Committee resolved:-

- (i) to note that officers would bring further detail to Committee in respect of management expenses and unit costs per member (page 54 of the report refers); and

PENSIONS COMMITTEE AND PENSION BOARD
21 June 2024

(ii) to approve the recommendation.

BUDGET FORECAST 2024/2025 - PC/JUN24/BUD24-25

7. The Committee had before it a report by the Chief Officer – Finance which provided details of the Management Expenses Budget/Forecast 2024/25 for the North East Scotland Pension Fund (NESPF).

The report recommended:-

that the Committee approve the NESPF Management Expenses Budget/Forecast 2024/25, as shown in the main report.

The Committee resolved:-

to approve the recommendation.

INVESTMENT STRATEGY REVIEW 2024 - PC/JUN24/REVIEW

8. The Committee had before it a report by the Chief Officer – Finance which detailed the outcome of the investment strategy review which had been prepared by officers following the outcome of the 2023 Actuarial Valuation. The report set out the details of the Fund's current investment strategy and made a number of recommendations on taking the strategy forward.

The report recommended:-

that the Committee approve the proposed investment strategy as set out in the main report.

The Committee resolved:-

to approve the recommendation.

STRATEGY - PC/JUN24/STRAT

9. The Committee had before it a report by the Chief Officer – Finance which provided various updates and recommendations (if applicable) to changes to the North East Scotland Pension Fund.

The report provided an update on the 2020 HM Treasury Cost Control Mechanism Results; breaches of law, noting that there had been no reports to the Pensions Regulator or Information Commissioner during the reporting period; the Operating Model Review which would look at the current structure and provision of critical services, with the aim to ultimately deliver financial and service efficiencies; and the 2023 Actuarial Valuation.

The report advised that the following documents had also been updated:-

PENSIONS COMMITTEE AND PENSION BOARD

21 June 2024

- NESPF Cyber Incident Response Plan (**NEW**)
- Record Keeping Policy (removed references to the Transport Fund and replaced Code of Practice 14 with General Code following implementation)
- Training Policy (minor amendments for improved clarity, added CIPFA Framework for Board members)
- Pension Board Appointment Process (update from CoP14 to General Code)
- Statement of Investment Principles (addition of Exclusion Policy and enhanced Climate Statement, also added details on biodiversity and provided examples)
- Investment Policy (minor amendments to reference ESG, responsible investment, risk classes)
- Corporate Governance and SRI Policy (minor amendments in reference to ESG and responsible investment to provide further clarity on approach)

Appended to the report were updated copies of the risk register; the Pensions Administration Strategy; the Actuarial Valuation and the NESPF Funding Strategy Statement.

Members asked a number of questions in relation to the information provided in the report.

The report recommended:-

that the Committee –

- (a) approve the updates to the Fund policy documents as set out in 6.2 of the main report; and
- (b) note the remainder of the report for reassurance.

The Committee resolved:-

to approve the recommendations.

LAPFF NOMINATION - PC/JUN24/LAPFF

10. The Committee had before it a report by the Chief Officer – Finance which sought approval for nomination of an Elected Member or Fund Officer representative to the Local Authority Pension Fund Forum (LAPFF) on behalf of the North East Scotland Pension Fund.

The report recommended:-

that the Committee –

- (a) agree whether to nominate a Member of the Committee or a Fund Officer to the LAPFF Executive;
- (b) that if a nomination is to be made, consider those nominated and agree a nominee; and
- (c) if the nominee is accepted by LAPFF, approve the detailed travel costs associated with the membership of the Executive.

PENSIONS COMMITTEE AND PENSION BOARD

21 June 2024

The Committee resolved:-

- (i) to delegate authority to the Chief Officer – Finance, in consultation with the Pension Fund Manager and Investment Manager to nominate an appropriate officer as the Pension Committee nomination to the LAPFF Executive;
- (ii) in the event that the nomination to the LAPFF Executive was successful, to approve the detailed travel costs associated with the membership of the Executive; and
- (iii) to note that officers could bring reports to Committee in future to advise of any updates from meetings of the LAPFF Executive.

TRAINING - PC/JUN24/TRA

11. The Committee had before it a report by the Chief Officer – Finance which provided details of the training plan (2024/25) for the Pensions Committee and Pension Board of the North East Scotland Pension Fund.

The report recommended:-

that the Committee –

- (a) approve the travel of members to attend external training opportunities, as set out in the main report;
- (b) approve the revised Training Policy (as per Appendix 1); and
- (c) note the requirement for Members to have completed the Pensions Regulator online training and the Hymans online training in line with the Training Policy.

The Committee resolved:-

- (i) to note that Members should advise the NESPF team of their attendance at any training opportunities so that this could be recorded;
- (ii) in relation to the CIPFA Knowledge and Skills Framework, to note that officers would use this to create a survey for Members to allow them to test their existing knowledge; and
- (iii) to approve the recommendations.

In accordance with the decision taken under article 1 above, the following items were considered with the press and public excluded.

PROCUREMENT - PC/JUN24/PRO

12. The Committee had before it a report by the Chief Officer – Finance which provided an update on Pensions Dashboards and sought approval to enter into contractual arrangements with Heywood, the existing benefit administration software provider, to provide an (Integrated Service Provider) ISP solution to meet the Fund's regulatory requirements under the Pensions Dashboards Regulations 2022 (as amended).

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21 June 2024

The report recommended:-

that the Committee –

- (a) approve a direct award to Heywood to provide an ISP Solution to the NESPF, utilising the Norfolk Local Government Pension Scheme (LGPS) Framework, to comply with regulatory requirements for Pensions Dashboards; and
- (b) approve the estimated expenditure associated with granting such approval as set out in the recommendations section of the main report.

The Committee resolved:-

to approve the recommendations.

**ASSET AND INVESTMENT MANAGER PERFORMANCE REPORT -
PC/JUN24/AIMPR**

13. The Committee had before it a report by the Chief Officer – Finance which set out the investment activity of the North East Scotland Pension Fund for the three month period ending 31 March 2024.

The report recommended:-

that the Committee note the contents of the report for assurance.

The Committee resolved:-

to note the report.

INVESTMENT STRATEGY UPDATE - PC/JUN24/INVSTRAT

14. The Committee had before it a report by the Chief Officer – Finance which provided an update on the Under Armour class action.

The report recommended:-

that the Committee –

- (a) approve the travel for an additional appropriate Officer to attend the following (as per item 1.2 of the main report):
 - Robbins Gellar, July – Baltimore, US; and
- (b) note the remainder of the report for assurance.

The Committee resolved:-

to approve the recommendations.

- **COUNCILLOR JOHN COOKE, Convener**

	A	B	C	D	E	F	G	H	I
1	PENSIONS COMMITTEE BUSINESS PLANNER								
	The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year.								
2	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
3	13 September 2024								
4	NESPF Annual Report & Accounts	To present the audited annual accounts		Laura Colliss	Finance	Corporate Services	3.1		
5	NESPF Annual Audit Report and Covering Letter	To present the External Audit annual audit report		Anne MacDonald	External Audit	External Audit	2.1		
6	Procurement	To request approval to use the National Local Government Pension Scheme (LGPS) Framework		Laura Colliss	Finance	Corporate Services	1.2 and 4.1		
7	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Corporate Services	1.2, 1.4, 3-5		
8	Investment Strategy	To advise Committee in respect of a re-balancing change and the Under Armour settlement		Graham Buntain	Finance	Corporate Services	5.2		
9	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Corporate Services	5.2		
10	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Corporate Services	1.3	R	There is no requirement for a budget report this cycle
11	13 December 2024								
12	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Corporate Services	1.2, 1.4, 3-5		
13	Annual Effectiveness Report - Pensions Committee	To present the annual effectiveness report		Jonathan Belford	Finance	Corporate Services	GD 8.5		
14	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Corporate Services	5.2		
15	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Corporate Services	1.3		
16	21 March 2025								
17	Statement of Accounts Action Plan	To provide Elected Members with high level information and key dates to the Statement of Accounts including linkages to the plans and timetables of the Council's External Auditors		Laura Colliss	Finance	Corporate Services	3.1		
18	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Corporate Services	1.2, 1.4, 3-5		

	A	B	C	D	E	F	G	H	I
	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
2	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Corporate Services	1.2, 1.4, 3-5		
35	Investment Strategy	To advise Committee in respect of a re-balancing change and the Under Armour settlement		Graham Buntain	Finance	Corporate Services	5.2		
36	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Corporate Services	5.2		
37	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Laura Colliss	Finance	Corporate Services	1.3		
38	12 December 2025								
39	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Corporate Services	1.2, 1.4, 3-5		
40	Annual Effectiveness Report - Pensions Committee	To present the annual effectiveness report		Jonathan Belford	Finance	Corporate Services	GD 8.5		
41	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Corporate Services	5.2		
42	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Laura Colliss	Finance	Corporate Services	1.3		
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Aberdeen City Council Pensions Committee

3 September 2024

Town House
Broad Street
Aberdeen
AB10 1AB

North East Scotland Pension Fund Audit of 2023/24 Annual Report and Accounts

Independent auditor's report

1. Our audit work on the 2023/24 Annual Report and Accounts is now substantially complete. Subject to the satisfactory conclusion of the outstanding matters referred to in paragraph 9 of this letter, we anticipate being able to issue unqualified audit opinions in the independent auditor's report on 13 September 2024. The proposed report is attached at [Appendix A](#).

Annual audit report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Pensions Committee's consideration our draft Annual Audit Report on the 2023/24 audit. The section headed "Significant findings and key audit matters" (draft Annual Audit Report, page 7) sets out the issues identified in respect of the annual accounts.

3. The report also sets out conclusions on the wider scope areas that frame public audit as set out in the Code of Audit Practice.

4. This report will be issued in final form after the annual accounts have been certified.

Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected. There is one unadjusted misstatement of £42.5 million which is set out at Appendix 2 of the report. If adjusted, this would increase the return on investment (change in market value of investments) in the Fund Account and Net Assets by £42.5 million.

Fraud, subsequent events and compliance with laws and regulations

6. In presenting this report to the Pensions Committee, we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Section 95 Officer

7. As part of the completion of our audit, we are seeking written representations from the Chief Officer – Finance as Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made.

8. A draft letter of representation is attached at [Appendix B](#). This should be signed and returned to us by the Chief Officer – Finance with the signed annual accounts prior to the independent auditor’s report being certified.

Outstanding matters

9. While the audit is substantially complete, we are currently concluding the following matters:

- Undertaking and concluding final subsequent event transaction testing by 12 September 2024. These are routine checks required to cover the period right up until the date of the independent auditor’s report to ensure there are no events which might materially affect the figures in the accounts at 31 March 2024.
- A final review of the fund’s Annual Report and Accounts.

Appendix A: Proposed Independent Auditor's Report

Independent auditor's report to the members of Aberdeen City Council as administering authority for North East Scotland Pension Fund and the Accounts Commission

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of North East Scotland Pension Fund (the fund) for the year ended 31 March 2024 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the 2023/24 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the financial transactions of the fund during the year ended 31 March 2024 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 3 April 2023. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council as administering authority for the fund. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the fund's current or future financial sustainability. However, I report on the fund's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Chief Officer - Finance and the Pensions Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Officer – Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Officer – Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Officer - Finance is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the fund's operations.

The Pensions Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations 2018 as amended are significant in the context of the fund;
- inquiring of the Chief Officer - Finance and the Interim Chief Officer - Governance as to other laws or regulations that may be expected to have a fundamental effect on the operations of the fund;
- inquiring of the Chief Officer - Finance and the Interim Chief Officer - Governance concerning the fund's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and

- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the fund's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Reporting on other requirements

Other information

The Chief Officer – Finance is responsible for the other information in the annual report. The other information comprises the Management Commentary, Annual Governance Statement, Governance Compliance Statement, Statement of Responsibilities and other reports included in the annual report other than the financial statements and my auditor's report thereon.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Management Commentary, Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial

statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016): and

- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual report, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Michael Oliphant FCPFA
Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

13 September 2024

Appendix B: Letter of Representation (ISA 580) - to be reproduced on client's letterhead

Michael Oliphant
Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh

Dear Michael

Aberdeen City Council Annual Accounts 2023/24

- 1.** This representation letter is provided about your audit of the annual report and accounts of North East Scotland Pension Fund (herein referred to as North East Scotland Pension Fund or the fund) for the year ended 31 March 2024 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the management commentary, annual governance statement and the governance compliance statement.
- 2.** I confirm to the best of my knowledge and belief and having made appropriate enquiries of Aberdeen City Council's Corporate Management Team and North East Scotland Pension Fund's Management Team, the following representations given to you in connection with your audit of the fund's annual accounts for the year ended 31 March 2024.

General

- 3.** The fund and I have fulfilled our statutory responsibilities for the preparation of the 2023/24 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by the fund have been recorded in the accounting records and are properly reflected in the financial statements.
- 4.** I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

- 5.** The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (2023/24 accounting code), the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014.
- 6.** In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of North East Scotland Pension Fund at 31 March 2024 and the transactions for 2023/24.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2023/24 accounting code where applicable. All accounting policies applied are appropriate to the fund's circumstances and have been consistently applied.

8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed the fund's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on the fund's ability to continue as a going concern.

Assets

Investments

10. For the year ended 31 March 2024, the amounts included in the net assets statement reflect investments managed/held both internally and externally by appointed fund managers and the global custodian on behalf of the funds. Amounts have been calculated in accordance with approved bases of valuation and fairly represent the values at 31 March 2024. In making these assertions I am reliant on the opinions of the appointed fund managers. As far as we can reasonably ascertain, all assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Long Term Assets

11. For the year ended 31 March 2024, the amount included in the net assets statement for the insurance buy-in contract is the valuation provided by the fund's actuary. The pension assumptions made by the actuary in this valuation have been considered and I confirm that they are consistent with management's own view.

Banking and Cash Flow Arrangements

12. North East Scotland Pension Fund maintains a separate bank account and while the account forms part of Aberdeen City Council's treasury management arrangements, the pension fund can demonstrate that there is no borrowing from the administering authority. Amounts due to the administering authority to cover daily cash flows such as payments through the council's systems are reimbursed on a regular basis.

Other Current Assets

13. On realisation in the ordinary course of the fund's business, the other current assets in the Net Assets Statements are expected, in my opinion, to produce at least the amounts at which they are stated. In particular adequate provision has, in my opinion, been made against all amounts owing which are known or may be expected to be irrecoverable.

Liabilities

14. All liabilities at 31 March 2024 of which I am aware have been recognised in the financial statements.

15. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2024 of which I am aware where the conditions specified in the 2023/24 accounting code have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2024. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.

16. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2024 or to reflect material changes in the assumptions underlying the calculations of the cash flows.

17. The pension assumptions made by the actuary in the IAS 19 report for North East Scotland Pension Fund have been considered and I confirm that they are consistent with management's own view.

18. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent assets/liabilities

19. There are no significant contingent assets/liabilities, other than those disclosed in Note 25 to the financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent assets/liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided under the 2023/24 accounting code and IAS 37.

Fraud

20. I have provided you with all information in relation to:

- my assessment of the risk that the financial statements may be materially misstated because of fraud
- any allegations of fraud or suspected fraud affecting the financial statements
- fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

21. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

22. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2023/24 accounting code. I have made available to you the identity of all the fund's related parties and all the related party relationships and transactions of which I am aware.

Management commentary

23. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

24. I confirm that North East Scotland Pension Fund has undertaken a review of the system of internal control during 2023/24 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.

25. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. Other than the changes already reflected in the audited accounts, there have been no changes in the corporate governance arrangements or issues identified, since 31 March 2024, which require to be reflected.

Events Subsequent to the Date of the Balance Sheet

26. All events subsequent to 31 March 2024 for which the 2023/24 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Jonathan Belford
Chief Officer – Finance

North East Scotland Pension Fund

2023/24 Annual Audit Report – DRAFT



Prepared for the North East Scotland Pensions Committee and the Controller of Audit
September 2024

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Key messages

2023/24 annual report and accounts

- 1 Our audit opinions on the annual report and accounts are unmodified.
- 2 The annual accounts give a true and fair view of the state of affairs of North East Scotland Pension Fund as at 31 March 2024 and have been properly prepared in accordance with the financial reporting framework.

Financial management

- 3 The fund has appropriate financial management arrangements in place which includes comprehensive reporting of investment performance and appropriate medium term financial planning.
- 4 Appropriate financial internal controls are in place including satisfactory counter fraud arrangements.

Financial sustainability

- 5 The 2023 triennial valuation was concluded in line with plans.
- 6 Effective medium term financial planning arrangements are in place.
- 7 Fund membership levels continue to increase but the ratio of active members to pensioners is reducing resulting in changes in investment strategy.

Governance and resources

- 8 Instability and vacancies in membership threaten the effective operation of the pensions committee.
- 9 Members' commitment to pensions training needs to be improved to support good scrutiny.
- 10 There are effective arrangements for complying with the Pensions Regulator Public Service Code.
- 11 The pension administration function has performed well against targets.
- 12 The impact of global markets' performance impacted annual returns but investment performance continues to outperform longer-term benchmarks.
- 13 The administering authority has appropriate arrangements in place for securing Best Value.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of North East Scotland Pension Fund (the fund). The scope of the audit was set out in an Annual Audit Plan which was considered by the Pensions Committee in March 2024. This Annual Audit Report comprises:

- significant matters arising from the audit of the fund's annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - financial management
 - financial sustainability
 - vision, leadership, governance and use of resources to improve outcomes (herein collectively referred to as governance and resources)
- conclusions on the administering authority's arrangements related to the pension fund for meeting its Best Value duties.

2. This report is addressed to the Pension Committee of Aberdeen City Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2023/24

3. We have been appointed by the Accounts Commission as auditor of North East Scotland Pension Fund for the five-year period 2022/27. The 2023/24 financial year is the second year of our appointment.

4. We would like to thank officers and elected members for their cooperation and assistance during the year and we look forward to working together constructively over the remainder of the five-year appointment.

Responsibilities and reporting

5. As the administering authority for the fund, Aberdeen City Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts for the pension fund that are in accordance with proper accounting practices. The administering authority is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

6. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973, the Code of Audit Practice including supplementary guidance and International Standards on Auditing in the UK.

7. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of the administering authority from its responsibility to address the issues raised and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £51,270 as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. The annual audit adds value to the fund by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

1. Audit of 2023/24 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Main judgements

Our audit opinions on the annual report and accounts are unmodified.

The annual accounts give a true and fair view of the state of affairs of North East Scotland Pension Fund as at 31 March 2024 and have been properly prepared in accordance with the financial reporting framework.

Audit opinions on the annual report and accounts are unmodified

11. The Pension Committee is scheduled to approve the fund's 2023/24 annual report and accounts on 13 September 2024. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the management commentary, annual governance statement and governance compliance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Overall materiality was assessed as £116 million

12. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report.

13. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

14. The initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality was set with reference to net assets which was judged as the figure most relevant to the users of the financial statements.	£116 million
Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality, reflecting the fact that this is the second year of our audit appointment, no significant misstatement was found in our audit last year and taking issues noted during planning into consideration such as valuation of promised retirement benefits and unquoted investments.	£87 million
Reporting threshold - We report to those charged with governance all unadjusted misstatements more than the 'reporting threshold' amount.	£3.5 million

15. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

16. Under ISA (UK) 260, we communicate significant findings from the audit to the administering authority, including our view about the qualitative aspects of the fund's accounting practices. The Code of Audit Practice also requires us to highlight key audit matters within the annual audit report which are defined in ISA (UK) 701 as those matters judged to be of most significance.

17. The significant findings including key audit matters, are summarised in [Exhibit 2](#).

Exhibit 2 Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
<p>1. Valuation of unquoted investments</p> <p>The valuation of unquoted investments in the unaudited accounts was based on an estimate using the latest available capital statements rolled forward to 31 March 2024.</p>	<p>The estimate is based on the latest available information when the accounts are prepared. The actual valuation for investments held at 31 March is usually available to the fund in July enabling the</p>

Issue	Resolution
<p>Comparison between the rolled-forward estimate and the final valuation identified that private equity investments were understated by £42.5 million. The difference between estimate and actual represents movements in the financial markets.</p>	<p>fund to review the accuracy of the estimate.</p> <p>Management do not propose to amend the audited accounts to reflect the revised valuation at 31 March 2024 and we are in agreement as the amount involved is not considered to be material.</p> <p>The amount has been included in Appendix 2 as an unadjusted misstatement.</p>

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

18. We obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3 Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p>Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Assessed the design and implementation of controls over journal entry processing and tested a sample of journals with a focus on risk areas.</p> <p>Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Evaluated significant transactions outside the normal course of business.</p>	<p>There is increased openness and transparency in related parties disclosures. Significant improvements made through the provision of summaries of transactions and balances with the council and interests declared by members and key management personnel.</p> <p>Based on audit work undertaken above and across other areas, there was no evidence of management override of controls.</p>

Audit risk	Assurance procedure	Results and conclusions
	<p>Reviewed the arrangements for identifying related parties and associated transactions.</p> <p>Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p>	

19. In addition, we identified ‘areas of audit focus’ in the 2023/24 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. We kept these areas under review during the audit and having obtained appropriate assurance, satisfactory conclusions were reached as follows:

- Actuarial present value of promised retirement benefits** - Valuation depends on a number of assumptions about the future. We obtained assurances on the work of the actuary as a management expert, we reviewed the completeness and accuracy of the source data provided to the actuary and we confirmed that the actuarial valuation disclosures in the accounts were in accordance with the triennial valuation at 31 March 2023 and the IAS26 report at 31 March 2024. No issues were identified.
- Valuation of unquoted investments** – There is a significant degree of subjectivity in the measurement and classification of this type of investments. For material unquoted investments, we undertook a review of relevant fund managers as management experts in accordance with ISA 500 and confirmed valuation disclosures in the account to underlying valuation reports and/or other supporting documentation. Other than the matter referred to in [Exhibit 2](#), no issues were identified.

The unaudited annual report and accounts were received in line with the agreed audit timetable

20. The unaudited annual report and accounts were received by 30 June 2024, in line with our agreed audit timetable. The working papers provided with the unaudited accounts were of a good standard and officers provided good support to the audit team.

Performance reporting was of a good standard

21. The Management Commentary included in the annual report and accounts should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a

body's performance as well as helping stakeholders understand the financial statements.

22. We reviewed the Management Commentary and have concluded that it is adequate and transparent.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusions

The fund has appropriate financial management arrangements in place which includes comprehensive reporting of investment performance and appropriate medium term financial planning.

Appropriate financial internal controls are in place including satisfactory counter fraud arrangements.

2023/24 performance of North East Scotland Pension Fund

23. When considering the fund's investment performance, it is important to recognise the impact of world events on financial markets and investments. The global impact of the conflict in Ukraine and other events have significantly increased market volatility. The fund's performance in 2023/24 is summarised in [Exhibit 4](#).

Exhibit 4

Assets, funding level and investment performance

Increase in net assets	Funding level	Investment performance
£6.237 billion	133%	6.8%
Closing net assets as at 31 March 2024 (+7.46%)	Net assets vs promised retirement benefits 31 March 2024	Average annual return on investments over 5 years
£5.804 billion	126%	9.5%
Opening net assets at 1 April 2023	Opening net assets as a proportion of promised retirement benefits	Return on investments 2023/24

Source: 2023/24 North East Scotland Pension Fund annual report and accounts

24. The fund's net assets increased from £5.804 billion at 31 March 2023 to £6.237 billion at 31 March 2024. This is mainly attributed to the profits on

disposal and changes in market value of investments of £0.446 billion in 2023/24 compared to a previous year loss of £0.426 billion.

25. The promised retirement benefits at 31 March 2024 have been estimated at £4.706 billion (31 March 2023 – £4.598 billion) representing a 1.99% increase. This estimate is based on assumptions in line with International Accounting Standards (IAS) 19 requirements for the purposes of the fund's financial statements. It is not directly comparable to the liability measured on a funding basis.

26. Employee contribution rates and benefits payable are set by statute. The Funding Strategy Statement (FSS) addresses the issue of managing the need to fund those benefits over the long term. In line with the FSS, the fund determines the contribution required of each employer at every triennial valuation to meet future retirement liabilities.

The fund has appropriate and effective financial management arrangements in place which includes comprehensive reporting of investment performance

27. The administering authority's chief finance officer is the Proper Officer responsible for North East Scotland Pension Fund. The council's financial regulations, as administering authority, apply to the fund. We consider these to be current, comprehensive and support good financial management.

28. The Pension Committee receives administration and performance reports at its quarterly meetings. These reports are comprehensive and include fund performance trends, investment manager performance against benchmarks, and movements in asset allocations. Based on our observations of committee meetings, we concluded that reports presented to members are subject to adequate review and scrutiny.

The fund has appropriate financial control arrangements in place

29. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach and testing the operating effectiveness of specific key controls, we did not identify any internal control weaknesses which could affect the fund's ability to record, process, summarise, and report financial and other relevant data and result in a material misstatement in the financial statements.

30. We have however identified some minor weakness around changes in pensioner bank details documentation and the evidencing of quarterly reviews of Altair users. These have been discussed separately with officers.

31. Internal audit carried out a review of Pensions Investment Strategy to provide assurance over compliance with the fund's strategy and the adequacy of controls over management of investments. While the chief internal auditor concluded that a sound system of governance, risk management and control is generally in place, a recommendation was made to include planned actions to rebalance the fund in line with the investment strategy in its reporting to the

committee on asset and investment performance reporting. Where action has not been taken, then appropriate reasons should be provided.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

32. In the public sector there are specific fraud risks, including those relating pension claimants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery, and corruption.

33. Through the administering authority, the fund has adequate arrangements in place to prevent and detect fraud or other irregularities including whistleblowing and counter fraud policies.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusions

The 2023 triennial valuation was concluded in line with plans.

Effective medium term financial planning arrangements are in place.

Fund membership levels continue to increase but the ratio of active members to pensioners is reducing resulting in changes in investment strategy.

We carried out audit work in response to risk relating to financial sustainability identified in the Annual Audit Plan

34. [Exhibit 5](#) sets out the wider scope risk relating to financial sustainability identified in the 2023/24 Annual Audit Plan. It summarises the audit procedures performed during the year to obtain assurances over this risk and the conclusions from the work completed.

Exhibit 5

Risks identified from my wider responsibility under the Code of Audit Practice

Audit risk identified in Annual Audit Plan	Assurance procedure	Results and conclusions
Markets continue to be volatile due to uncertainties around inflation and interest rates. These have resulted in investment performance in the short to medium term, i.e., for the quarter, year and 3-year period being lower than benchmark as at 30 September 2023. Longer term performance, i.e., five years and since inception, is still ahead of benchmark but margins are dwindling.	Reviewed the performance of the fund through quarterly performance reports. Reviewed investment performance against benchmark returns. Evaluated the fund's arrangements for monitoring performance against financial plans, including funding strategy.	New employer rates have been set for the next three years in line with the Funding Strategy Statement. Asset class allocations will be amended to increase investments in Income/Protection Assets and reduce Growth Assets in line with existing Investment Strategy.
The fund is finalising a new Funding Strategy Statement	Reviewed the triennial valuation's underlying assumptions and the factors considered when setting new	The above measures are aimed at maintaining solvency of the fund in the longer term.

Audit risk identified in Annual Audit Plan	Assurance procedure	Results and conclusions
<p>based on the results of the triennial valuation at 31 March 2023. The valuation resulted in an increased funding level of 125% compared with 103% previously. The new strategy will set employer rates for the next three years and prompt a review of investment strategy as appropriate to ensure that the fund has sufficient assets to meet its liabilities.</p>	<p>employer contribution rates from 1 April 2024.</p>	

The 2023 triennial pension valuation was concluded in line with plans

35. There is a statutory requirement for local government pension funds to undertake a full actuarial valuation of assets and liabilities every three years. This is referred to as a triennial valuation. The latest valuations took place in 2023/24 based on data as at 31 March 2023. The main purpose of the valuations is to review the financial position of each fund and to set appropriate employer contribution rates for the upcoming three-year period as part of funds' overall funding strategies.

36. The results of the 2023 triennial valuation of North East Scotland Pension Fund showed a funding level of 126%, a considerable improvement to the 2020 level of 103%. This meant that overall, the fund has a surplus of assets over liabilities and that assets are sufficient to meet 126% of its liabilities.

37. As highlighted in the annual report and accounts, in line with the Funding Strategy Statement, the fund has determined a contribution requirement for each employer taking into account the offset of any surplus held or the recovery of any deficit due. The average spread/recovery period adopted by the fund is 13 years.

38. The valuation determined that the average employer cost of providing members' benefits across the fund was 20.2% (the primary contribution rate.) By spreading the surplus over 13 years the secondary contribution rate for the whole Fund is -6.2% meaning that the average employer contribution rate is 14.0% of pensionable pay. This is a reduction from the average contribution of 17.2% which applied between 2021/24. For the majority of employers, the current funding surplus is being used to subsidise and stabilise contribution rates.

39. We reviewed the pension fund's arrangements for providing the underlying membership data to the actuary as this formed an important element of the valuation process. No major issues arose from this review.

Effective medium-term financial planning arrangements are in place

40. There is considerable volatility in pension funding and the results of the triennial valuation are in effect a snapshot of the fund as at 31 March 2023. Following each triennial valuation, the fund reviews and revises its funding strategy which sets out how future liabilities will be funded. It outlines the types of investment to be held and the balances between the different types of investment.

41. As can be seen in [Exhibit 6](#), the fund has a history of strong funding levels which exceed the target level of 100%.

Exhibit 6 Funding levels in the past three actuarial valuations

Valuation Date	31 March 2017 £'s	31 March 2020 £'s	31 March 2023 £'s
Asset Value	3,815 m	4,367 m	5,804 m
Liabilities	3,576 m	4,254 m	4,614 m
Surplus/(Deficit)	239 m	113 m	1,190 m
Funding Level	107%	103%	126%

Source: North East Scotland Pension Fund Investment Strategy Review June 2024

42. As at 31 March 2024, growth assets represented 63.5% and Income/Protection assets 36.5% of total assets. Having reached an above favourable funding position, the fund acknowledges it is now essential to implement a more balanced strategy which secures this funding level and protects the position going forward. In line with the strategy, the allocation will be amended to Growth Assets 55% +/- 5% and Income/Protection Assets 45% +/- 5% and this will be achieved by reducing global equities in favour of bonds/credit assets.

Fund membership levels continue to increase but the ratio of active members to pensioners is reducing

43. North East Scotland Pension Fund is a multi-employer fund including three local authorities and around 40 other employers. The current membership profile is shown at [Exhibit 7](#).

44. The fund gives its members a guarantee that in exchange for contributions during their employment, it will pay a pension until the end of each members' life. It is therefore important that the fund maintains the capacity to meet the current and future pension entitlements of its members.

Exhibit 7**North East Scotland Pension Fund membership**

Source: 2023/24 North East Scotland Pension Fund annual report and accounts

45. Active membership has been steadily increasing since 2019/20 but experienced a slight decline in 2022/23, a reduction of 43 compared with the previous year.

46. The number of pensioners has also been steadily increasing. There has been an increase of 1,025 or 3.9% in 2023/24 compared with the previous year. The number of active members continues to outweigh the number of pensioners but the ratio of active members to pensioners has reduced over the past five years.

47. Net cash flow from dealings with members continues to be negative with more paid out in benefits than that received from contributions. In 2023/24, the deficit was £78.6m compared to £34.3m in 2022/23 or a 129% increase (£1.209 million or 3.6% in 2022/23). In addition to increasing pension payments, exit payments were paid to two employers who left the fund during 2023/24.

48. The continued growth in the number of pensioners makes funding benefit payments increasingly challenging. Over the long term, the cash flow position will impact on the investment strategy. With contributions reducing, more income will be required from investments to pay pensions. North East Scotland Pension Fund considered this as part of its investment strategy refresh and intends to further diversify its investment structure to increase investment in income generating assets.

4. Governance and resources

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusions

Instability and vacancies in membership threaten the effective operation of the pensions committee.

Members' commitment to pensions training needs to be improved to support good scrutiny.

There are effective arrangements for complying with the Pensions Regulator Public Service Code.

The pension administration function has performed well against targets.

The impact of global markets' performance impacted annual returns but investment performance continues to outperform longer-term benchmarks.

The administering authority has appropriate arrangements in place for securing Best Value.

Instability and vacancies in membership threaten the effective operation of the pensions committee

49. In our 2022/23 audit report, we commented on the considerable changes in the membership of the committee and the existence of long term vacancies on the committee. The committee experienced further instability during 2023/24 which potentially impacts on the effectiveness of the committee. We therefore continued to highlight this matter as a wider scope risk in our annual audit plan.

50. Following the Local Government election in May 2022, the administering authority increased membership of the committee from 9 to 13, bringing it into line with other council committees. During 2023/24, the council decided to reduce the size of all committees and consequently, membership of the pensions committee reverted to nine members. At 31 March 2024, there were two long standing vacancies on the committee which continue to exist with no immediate resolution expected as a result of political differences.

51. We recognise that local government is a political environment but members should be mindful of the role and remit of the pensions committee. They effectively act as trustees with responsibilities to all fund employers and

members. They have fiduciary duties and responsibilities for decision-making and effective scrutiny of the fund.

52. The pension fund is a complex body which requires specialist knowledge and continuity in engagement. With only seven active members on the committee, this places significant pressure on its ability to operate effectively and ensure there is appropriate scrutiny of complex activities.

Recommendation 1

Aberdeen City Council, as administering authority, should fill the vacancies on the Pensions Committee and members need to work together for the benefit of the fund.

Members' commitment to pensions training needs to be improved to support good scrutiny

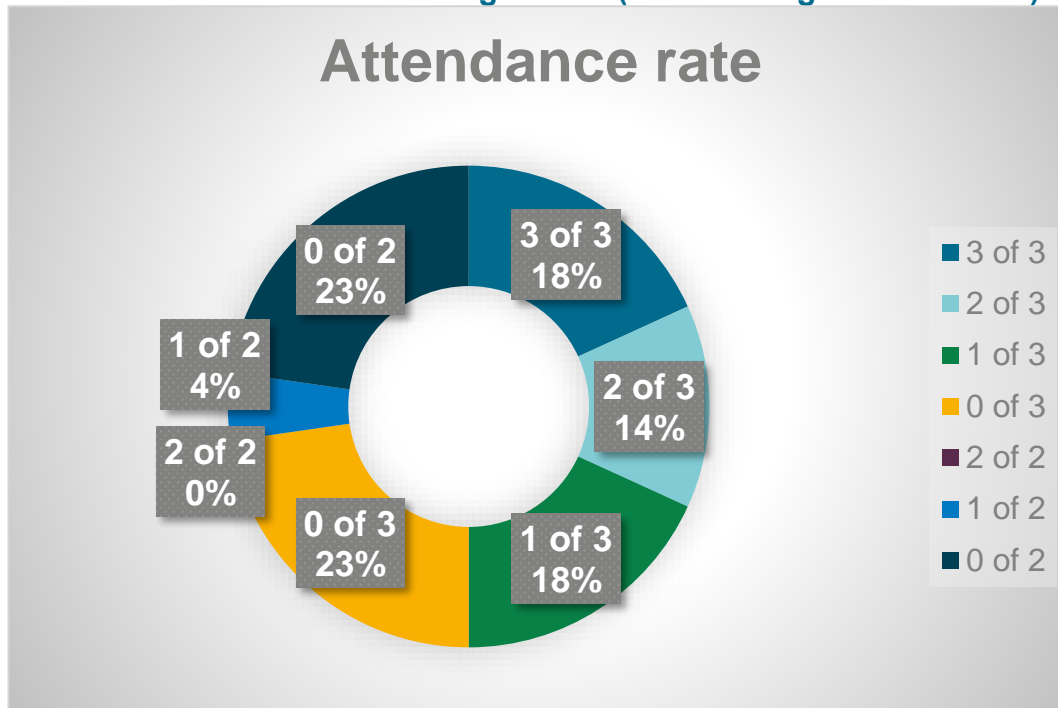
53. Aberdeen City Council has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in the North East of Scotland. In discharging this overall responsibility, the Pensions Committee is responsible for putting proper governance arrangements in place.

54. North East Scotland Pension Fund has a Pension Board whose primary function is to ensure that the fund complies with regulations and meets the requirements of the Pensions Regulator. In doing so, the board ensures the fund operates in accordance with the law, securing the effective and efficient governance and administration of the Scheme. Board membership comprises of eight members, four trade union representatives and four employer representatives appointed from employer councils and scheduled or admitted bodies.

55. The fund's governance framework is set out in the Annual Governance Statement in the annual report and accounts. Operation of the fund is governed by complex regulations and investment decisions involve significant sums of money. It is therefore crucial that members have the specialist knowledge to understand and effectively challenge information presented to them.

56. The framework therefore includes a training programme to ensure that Pensions Committee and Pension Board members develop the required level of knowledge and understanding of the LGPS.

57. Pensions Committee and board members previously agreed to regard certain committee and board training as mandatory training. This includes the Pensions Regulator's (tPR) online toolkit and Hymans Online Learning Academy (LOLA). The committee approved funding for LOLA licences in December 2021. [Exhibit 8](#) shows a summary of attendance at training sessions in 2023/24.

Exhibit 8**Members' attendance at training events (minimum agreed sessions)**

Source: 2023/24 North East Scotland Pension Fund annual report and accounts

58. As can be seen from the chart, attendance is variable. Only 4 out of 22 members (18%) attended all training sessions available to them. 10 members out of 22 (46%) have not attended any training session.

59. Additional training opportunities, including externally delivered training, is also highlighted to both Pensions Committee and Pension Board members as and when available but these are in addition to the mandatory requirements. There is evidence of officers actively providing members with training and development opportunities but more engagement is required from members.

Recommendation 2

The programme of mandatory training should be refreshed and sanctions agreed and implemented where agreed training is not undertaken within reasonable timescales.

There are effective arrangements for complying with the Pensions Regulator Public Service Code

60. The Public Sector Pensions Act 2013 provided for extended regulatory oversight by the Pensions Regulator. The Pensions Regulator issued a code on the governance and administration of public service pension schemes in January 2015 which funds are expected to comply with.

61. North East Scotland Fund carries out a six monthly review of its compliance with the code, the most being in December 2023 which concluded that key controls for monitoring the ongoing compliance with legislation and code requirements are in place and working effectively. There were no breaches of law reported to the Pensions Regulator or the Information Commissioner during 2023/24.

The pension administration function has performed well against targets

62. The Pensions Committee meets on a regular basis and receives regular reports on both fund administration and investment performance. The focus of measuring the performance of pensions administration includes both member experience and statutory compliance.

63. The Pension Service Business Plan covers a three-year planning cycle from 2023/26 and sets out the following key priorities for the fund:

- Improve customer experience
 - Review all communication and develop new website.
 - Continue to utilise technology to improve service delivery.
- Improve staff experience
 - Continue to implement workforce and succession planning.
 - Continue to roll out and update individual training plans.
 - Review recruitment and retention options.
- Improve use of resources
 - Improve work planning and business support.
 - Develop management reporting across the fund.
 - Risk review.

64. The Service Business Plan does not set out an agreed mechanism for monitoring and reporting progress against key priorities either at fund or service level. While there is existing quarterly performance reporting by service to the committee under the banner of Strategy Report, there is scope to provide a clear link between performance reported with service business plan key priorities.

Recommendation 3

There is scope to formally track progress against priorities at both fund and service level.

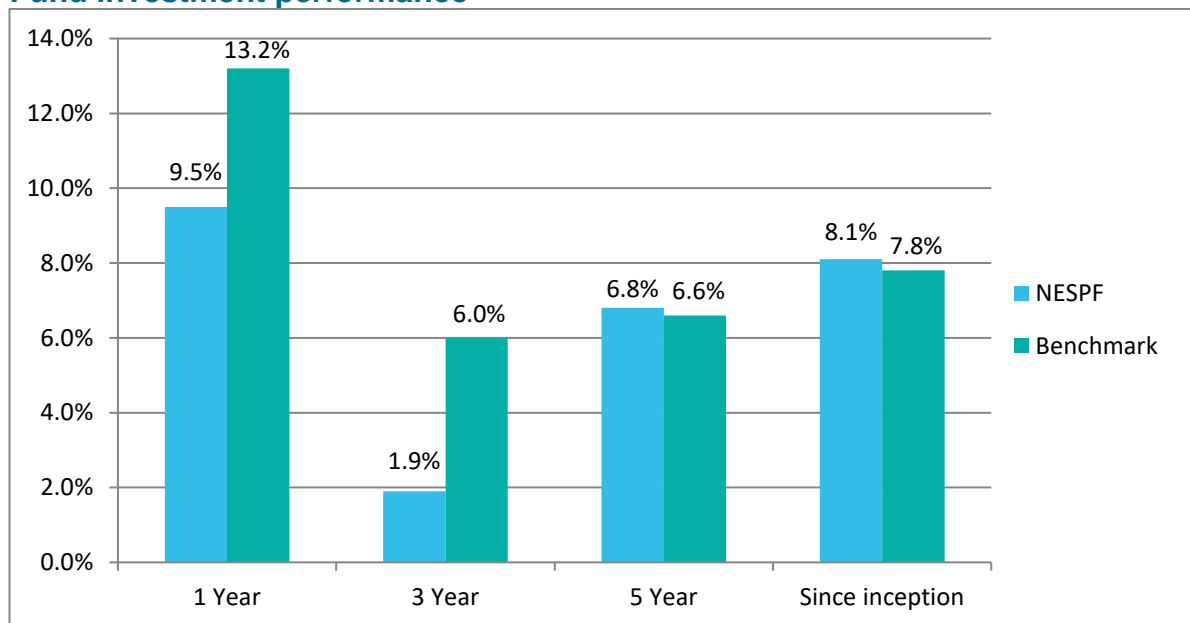
The impact of global markets' performance impacted annual returns but investment performance continues to outperform longer-term benchmarks

65. Financial markets have remained volatile, however returns against most asset classes, especially equities were positive. [Exhibit 9](#) shows that over the

year, the fund generated a return of 9.5% against a benchmark of 13.2%. Equity portfolios were the most significant contributor to this increase.

66. Over the medium to longer term, the fund is behind its three year benchmark but still ahead of its five and ten-years benchmarks. In the longer term, the fund outperforms the benchmark returns which provides assurance that the fund's investment strategy is working and the fund believes it will continue to deliver the required returns over the longer term.

Exhibit 9 Fund investment performance



Source: 2023/24 North East Scotland Pension Fund unaudited annual report and accounts

The fund's approach to climate change

67. The fund recognises that climate change is a long-term financial risk. The risk register refers to a failure to meet Environmental, Social and Governance (ESG) issues for which mitigating controls include monitoring the impact of climate change and adoption of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). Initial training on climate change has also been provided for elected members.

68. The fund engages a range of external fund managers to deliver investment mandates providing the best returns for members of the fund. Through the fund managers, the fund engages with companies more directly by raising ESG concerns and meeting with senior management and reporting their engagements to the fund on a quarterly basis. Due to the sensitivities around some of this activity, the Pensions Committee consider ESG issues as an exempt paper. With a view to increasing the fund's transparency on significant ESG issues, consideration is being given to reporting these issues in public session, where appropriate.

69. While the fund does not have an explicit policy towards delivery of Net Zero, it can demonstrate steps towards greener activities in some of its recent investments. Fund managers currently provide some information on the carbon footprint of their investment portfolios but work is required to ensure consistency in approach before a carbon footprint can be calculated for the fund as a whole.

70. Some early generic climate change analysis was also undertaken as part of the 2023 triennial valuation which will be developed further for the next valuation. In setting the funding strategy, the fund looks perhaps 10-15 years ahead. Given the nature of the pension fund, there is scope to extend this further through horizon scanning a period perhaps 40-50 years ahead to identify the potential risks and implications for the long term delivery of pension benefits to members.

71. TCFD provides a global framework to enable stakeholders to understand the financial system's exposure to climate-related risks particularly affecting organisations most likely to experience climate-related financial impacts from transition and physical risks. The fund will report on its approach to climate risk in its first TCFD report due for publication in 2024/25. This will provide an opportunity for a more focused consideration of the fund's approach to climate change and to be more transparent in its future annual reports about its current activities and future plans in this area.

Recommendation 4

There is scope to review and improve the content of future annual reports where appropriate e.g. approach to climate change.

The administering authority has appropriate arrangements in place for securing Best Value

72. Aberdeen City Council as the administering authority has responsibility for ensuring that its business, including that of North East Scotland Pension Fund, is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a statutory duty to make arrangements to secure Best Value, which are subject to audit.

73. As part of the 2023/24 audit of the council, best value thematic work has been undertaken in relation to workforce innovation. The audit concluded that the council has robust workforce planning arrangements in place.

Appendix 1: Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Membership of Pensions Committee</p> <p>As a result of political differences, there are two long standing vacancies on the committee with no immediate resolution expected. As trustees, members have fiduciary duties with responsibilities to all fund employers and members and should therefore be operating a politically neutral scrutiny committee.</p>	<p>Aberdeen City Council, as administering authority, should fill the vacancies on the Pensions Committee and members need to work together for the benefit of the fund.</p>	<p>Chief Officer Finance and Pension Manager to raise the issues with the relevant parties.</p> <p>December 2024</p>
<p>2. Elected member mandatory training</p> <p>With vacancies on the committee and the need for more engagement in training events, there is a risk the committee is not undertaking appropriate scrutiny of the pension fund's activities.</p>	<p>The programme of mandatory training should be refreshed and sanctions agreed and implemented where agreed training is not undertaken within reasonable timescales.</p>	<p>Pension Manager to review mandatory training and agree and remind members of possible sanctions.</p> <p>December 2024</p>
<p>3. Monitoring progress against priorities</p> <p>The service business plan does not set out an agreed mechanism for monitoring and reporting progress against key priorities either at fund or service level.</p> <p>There is a risk the fund is not appropriately delivering its priorities.</p>	<p>There is scope to formally track progress against priorities at both fund and service level.</p>	<p>Pension Manager to progress Operating Model Review and update service business plan to include a process to formally track performance.</p> <p>2024/2025</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>4.Future annual reports</p> <p>The fund will report on its approach to climate risk in its first Task Force on Climate-related Financial Disclosures (TCFD) report due for publication in 2024/25.</p> <p>This provides an opportunity for a more focused consideration of the fund’s approach to climate change and related future plans. There is a risk that the Annual Report and Accounts is not transparent about the fund’s current activities in this area.</p>	<p>There is scope to review and improve the content of future annual reports where appropriate e.g. approach to climate change.</p>	<p>Pension Manager to review content/style of the annual report to ensure capturing changing approaches across the industry.</p> <p>March 2025</p>

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £3.5 million.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Fund Account		Net Assets Statement	
		Dr	Cr	Dr	Cr
Accounting Misstatements		£m	£m	£m	£m
1. Private equity valuation – difference between actual data and estimated data.	Investment Assets			42.5	
	Changes in Market Value of Investments		42.5		

North East Scotland Pension Fund

2023/24 Annual Audit Report – DRAFT

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	13 September 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Consideration and Signing of Audited Annual Report and Accounts
REPORT NUMBER	PC/SEPT24/ARA
EXECUTIVE DIRECTOR	ANDY MACDONALD
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	LAURA COLLISS
TERMS OF REFERENCE	3.1

1. PURPOSE OF REPORT

- 1.1 To provide the Audited Annual Report and Accounts for the North East Scotland Pension Fund (NESPF) for consideration and signing.

2. RECOMMENDATIONS

That the Committee:-

- 2.1 Consider and approve the Audited Annual Report and Accounts for the North East Scotland Pension Fund; and
- 2.2 Instruct the Chief Officer – Finance, as the Local Government (Scotland) Act 1973 – Section 95 Officer, to sign the accounts on behalf of the Fund.

3. CURRENT SITUATION

- 3.1 Further to The Local Authority Accounts (Scotland) Regulations 2014 the audited Annual Report and Accounts for the North East Scotland Pension Fund are presented to Committee for their consideration and approval.

Appendix I, North East Scotland Pension Fund Annual Report and Accounts

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 The Local Authority Accounts (Scotland) Regulations 2014 says that local authorities should aim to approve the audited Annual Accounts for signature no later than 30 November 2024 in respect of the accounts for the financial year 2023/24.

5.2 Section 95 of The Local Government (Scotland) Act 1973 requires the Council to make arrangements for the proper administration of their financial affairs and to secure that the proper officer of the administering authority has responsibility for the administration of those affairs. For the North East Scotland Pension Fund, that officer is the Chief Officer – Finance of Aberdeen City Council.

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

7.1 The Pension Fund maintains its own Risk Management Policy and regularly updates its Risk Register in line with change. This is reported quarterly to the Pensions Committee.

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) <i>*taking into account controls/control actions</i>	*Does Target Risk Level Match Appetite Set?
Strategic Risk	No significant risks identified.	N/A	N/A	Yes
Compliance	There is a risk that a delay or failure to approve the Annual Report and Accounts could impact on the administering authority to fulfil its regulatory requirements.	Consideration and approval of the Annual Report and Accounts at the scheduled Committee meeting.	L	Yes
Operational	No significant risks identified.	N/A	N/A	N/A
Financial	No significant risks identified.	N/A	N/A	N/A

Reputational	No significant risks identified.	N/A	N/A	N/A
Environment / Climate	No significant risks identified.	N/A	N/A	N/A

8. OUTCOMES

8.1 The proposals in this report have no impact on the Council Delivery Plan.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	No assessment required. I can confirm this has been discussed and agreed with Jonathan Belford, Chief Officer – Finance on 10 th June 2024.
Data Protection Impact Assessment	Not required
Other	N/A

10. BACKGROUND PAPERS

10.1 None

11. APPENDICES

11.1 *Appendix I*, North East Scotland Pension Fund Annual Report and Accounts

12. REPORT AUTHOR CONTACT DETAILS

Name	Laura Colliss
Title	Pensions Manager
Email Address	LColliss@nespf.org.uk
Tel	01224 067109

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North East Scotland Pension Fund

Unaudited Annual Report & Accounts
For the period 1 April 2023 to 31 March 2024

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Management Commentary

1. Foreword

As Convener of the Pensions Committee, I am pleased to introduce the 2023/24 Annual Report and Accounts which reflects a significant year of both challenges and achievements.

The continued war in Ukraine, the attacks between Hamas and Israel and the continued Cost of Living Crisis all dominated the headlines this year and contributed towards the Fund operating within a fast changing environment.

Despite these challenges, the Fund's Net Asset Value increased from £5,804m to £6,237m. This increase is not as a result of any of my own decisions, but rather the result of good decisions made by our fund managers and by staff at the NESPF.

The Fund's investment strategy has not only positively impacted the asset value but funding levels too. The 2023 actuarial valuation saw funding levels increase to 126%, which further demonstrated the strength and long term security of the Fund.

While financial performance and efficiency is a primary focus, the Fund remains committed to being a socially responsible investor. In 2023/24, the Fund engaged with the fund managers to expand their reporting on Environmental, Social and Governance (ESG) metrics. In the coming year, the NESPF will produce their first Task Force on Climate Related Financial Disclosures (TCFD) report, which aims to develop consistent climate related financial risk disclosures.

The NESPF was the first Local Government Pension Scheme (LGPS) in the UK to go live with the new online member portal, rebranded as My Pension+. With improved design, usability and enhanced security, the site also brings additional functionality including personalised Annual Benefit Statement (ABS) videos for active members produced utilising Artificial Intelligence (AI). The Fund will continue to make best use of technological advances to improve member experience and services.

From a regulatory and compliance point of view, the long awaited McCloud remedy came into force in October 2023, which expanded the underpin protection for certain members. Also, The Pensions Regulator's (TPR) new General Code of Practice took effect in March 2024. To ensure we met both these new requirements, the Fund updated processes, tested system developments and implemented new guidance.

In recognition of all that was achieved, I am delighted that the Fund was shortlisted for several awards including the LGPS Fund of the Year at the LAPF awards and Defined Benefit Scheme of the Year at the Pension Age awards. These national awards look at best practice, performance and innovation and the nominations highlight the Fund's accomplishments.

Looking ahead to 2024/25, in addition to the delivery of essential services, the Fund will proceed with several projects. These include a procurement for a Global

Custodian; further improvements to administrative processes; and the introduction of the Pensions Dashboard (a government initiative that allows the public to see all their pension savings online and in one single place).

Finally, my sincere thanks to my colleagues on the Pensions Committee and Pension Board, our advisors and, above all, our staff for their hard work and efforts during the year.

Councillor John Cooke
Pensions Committee Convener

2. About the North East Scotland Pension Fund

The North East Scotland Pension Fund (NESPF) administers the Local Government Pension Scheme (LGPS) for employers located throughout the North and North East of Scotland.

The LGPS is a defined benefit public sector Pension Scheme that was established under the Superannuation Fund Act 1972. It is one of the main public sector Pension Schemes in Scotland and provides members with a range of valuable benefits including an annual pension, lump sum payments and a range of pension provisions for family and loved ones. The LGPS is administered locally by 11 government authorities, with Aberdeen City Council acting as the Administering Authority for the North East.

NESPF has an asset value of £6.2 billion and 77,865 members. It is the third largest LGPS fund in Scotland.

The Fund has one primary objective; to ensure the payment of pension benefits to our members both now and in the future. It is this single purpose that drives the Fund's long term policies and strategies. To achieve this objective, funds are built up from contributions from both employees and employing bodies, together with interest, dividends and rent from our investments.

There are strict rules and legislation which set out how the LGPS, and by extension the Fund, operate. These include the LGPS (Scotland) Regulations which are Scottish Statutory Instruments (SSIs) as well as separate regulations that set out Scheme benefits, investment and governance requirements. These provide assurance for all members, employers, taxpayers and stakeholders that the Fund operates efficiently and manages itself to ensure our key objective, paying out pensions, is met.

3. Administration 2023/24

Administering Authority	Aberdeen City Council
Committees	Pensions Committee, Pension Board
Chief Officer – Finance	Jonathan Belford
Actuary	Mercer
Global Custodian	HSBC
Performance Measurement	HSBC
Banks	Virgin Money* & HSBC
AVC Providers	Prudential, Standard Life Assurance
Bulk Annuity Provider	Rothsay Life Plc
External Auditor	Audit Scotland
Internal Auditor	Aberdeenshire Council
Investment Consultant	Isio
Legal Adviser	Aberdeen City Council
Employers	For full details see Appendix 2

*Clydesdale Bank trading as Virgin Money

4. Pensions Committee & Pension Board

Pensions Committee

While day to day administration of the Pension Fund is the duty of Pension Fund staff, decision making and overall responsibility has been delegated to the Pensions Committee by Aberdeen City Council.

The Pensions Committee carries out a role similar to that of trustees of a Pension Scheme. It is the key decision maker for all matters under LGPS Regulations including benefit administration and investment management.

As a public sector pension provider, both the Council and the Pensions Committee recognise that they have fiduciary duties and responsibilities not only towards Pension Scheme members and participating employers but to local taxpayers.

The Committee meets on a quarterly basis to address a range of matters such as risk management, administration, funding, investment strategy and performance.

The Committee consists of nine elected members of Aberdeen City Council each with equal voting rights. Following a full Council meeting in February 2024, the number of Committee members was reduced from 13 to 9. As at 31 March 2024, the Committee had two vacancies.

Membership 2023/24

Name	Member as at 31 March 2023	Joined	Left	Member as at 31 March 2024
Cllr John Cooke	Yes			Yes
Cllr Neil MacGregor	Yes			Yes
Cllr Dell Henrickson	Yes			Yes
Cllr Alison Alphonse	Yes			Yes
Cllr Sarah Cross	Yes		21/02/2024	
Cllr Derek Davidson	Yes			Yes
Cllr Duncan Massey	Yes			Yes
Cllr Ciaran McRae	Yes		13/02/2024	
Cllr Christian Allard	Yes		13/02/2024	
Cllr Jennifer Bonsell	Yes		27/04/2023	
Cllr Kairin van Sweeden*		07/06/2023		Yes
Cllr Alex McLellan		07/06/2023	13/02/2024	
Total	10	2	(5)	7

Notes:

*Councillor van Sweeden resigned from the Pensions Committee on 12 October 2023 and was re elected on 14 December 2023.

Meeting Attendance in 2023/24

Name	23/06/23	15/09/23	15/12/23	22/03/24	Overall Attendance
Cllr John Cooke	✓	✓	✓	✓	100%
Cllr Neil MacGregor	✓	✓	✓	✓	100%
Cllr Dell Henrickson	✓	✓	✓	✓	100%
Cllr Alison Alphonse	✓	X	✓	X	50%
Cllr Sarah Cross	✓	✓	✓	N/A	100%
Cllr Derek Davidson	✓	✓	✓	✓	100%
Cllr Duncan Massey	X	✓	✓	✓	75%
Cllr Ciaran McRae	✓	✓	✓	N/A	100%
Cllr Christian Allard	N/A*	✓	✓	N/A	100%
Cllr Kairin van Sweeden	✓	✓	✓	✓	100%
Cllr Alex McLellan	✓**	✓	✓	N/A	100%

Notes:

* Councillor Allard did not attend the meeting on the 23 June as he was missed from the original invitation in error.

**Councillor McLellan sent Councillor Delaney as a substitute.

Pension Board

In line with Scheme regulations, the Fund established a Pension Board in 2015/16. The Board's primary function is to ensure that the Fund complies with regulations and meets the requirements of The Pensions Regulator. In doing so, the Board ensures the Fund operates in accordance with the law, securing the effective and efficient governance and administration of the Scheme.

Board membership comprises of eight members, four trade union representatives and four employer representatives appointed from Councils and Scheduled or Admitted Bodies. The Pension Board membership is shown below;

Membership 2023/24

Membership	Name	Member as at 31 March 2023	Joined	Left	Member as at 31 March 2024
Unison	Morag Lawrence (Chair)*	Yes			Yes
Aberdeenshire Council	Cllr Stephen Smith (Vice Chair)	Yes			Yes
Aberdeen City Council	Cllr Jessica Mennie	Yes			Yes
The Moray Council	Cllr Graham Leadbitter	Yes		15/12/2023	No
The Moray Council	Cllr David Gordon		19/12/2023		Yes
First Bus	Ian Hodgson	Yes		22/09/2023	No
Robert Gordon University	Jeremy Lindley		15/02/2024		Yes
GMB	Neil Stirling	Yes			Yes
UCATT	Gordon Walters	Yes			Yes
Unite	Alan Walker**	Yes			Yes
Total		8	2	(2)	8

Notes:

* Morag Lawrence was reappointed to the Pension Board on 13 February 2024.

** Alan Walker was reappointed to the Pension Board on 24 January 2024.

Meeting Attendance in 2023/24

Name	23/06/23	15/09/23	25/09/23*	15/12/23	22/03/24	Overall Attendance
Morag Lawrence	✓	✓	✓	✓	✓**	100%
Cllr Stephen Smith	✓	✓	✓	✓	✓	100%
Cllr Jessica Mennie	✓	✓	✓***	✓	✓	100%
Cllr Graham Leadbitter	✓	✓	✓	✓	N/A	100%
Cllr David Gordon	N/A	N/A	N/A	✓****	✓	100%
Ian Hodgson	✓	X	N/A	N/A	N/A	50%
Jeremy Lindley	N/A	N/A	N/A	N/A	X	0%
Neil Stirling	✓	✓	✓	✓	✓	100%
Gordon Walters	✓	✓	✓	X	✓	80%
Alan Walker	✓	✓	✓	✓	✓	100%

Notes:

* Pension Board additional meeting.

** Morag Lawrence sent Kenny Luke as a substitute.

*** Councillor Mennie sent Councillor Neil Copland as a substitute.

**** Councillor David Gordon attended the meeting on 15 December 2023 in an observing role.

Apart from the Pension Board's Annual Meeting, the Board sits at the same time as the Pensions Committee. To further enhance transparency and openness, both the Board and Committee receive the same reports for each meeting. These reports include information on all areas of the Pension Fund; Investment, Accounting, Governance, Employer Relationship, Administration and Systems.

In assisting with compliance, the Board can report the Fund to The Pensions Regulator for non compliance with guidance or regulations. In 2023/24 no issues were reported by the Board to The Pensions Regulator. The Pensions Regulator's General Code of

Practice came into force on 28 March 2024. This code details TPR's expectations of what is required to maintain an effective system of governance. The Fund have taken appropriate steps to ensure compliance with the new code.

The Annual Report of the Pension Board, which reviews its activity for the year, is available on our website: www.nespf.org.uk.

Conflicts of Interest

The Fund maintains a 'Conflicts Register' to record and monitor all potential or actual conflicts noted prior to or during Pension Committee and Board meetings.

A 'Declaration of Interest' form is completed every 12 months and individuals confirm that the information submitted is complete, accurate and is to the best of their knowledge.

In terms of management, where an actual conflict of interest arises the following option(s) exist:

- a member can withdraw from the discussion and decision making process;
- the Pension Board can establish a sub board to review the issue (where the terms of reference give the power to do so); or
- if the conflict is so fundamental that it cannot be managed in any other way, the member can resign.

Pensions Committee members are governed by the national Councillors' Code of Conduct. Training on the Code of Conduct was delivered by Aberdeen City Council in May 2022. Full list of each member's interests can be found on the Aberdeen City Council website: <https://committees.aberdeencity.gov.uk/mgMemberIndex>.

Committee and Board Training 2023/24

Pensions Committee members are not legally obliged to undertake training. The Fund feels strongly that Committee members should receive training to ensure that they have the necessary level of knowledge and understanding to exercise their functions. Whereas for the Board, the Public Service Pensions Act 2013 requires that members have an appropriate level of knowledge and understanding in order to carry out their role. The agreed Training Plan for both Committee and Board members has an expectation that members maintain their level of knowledge and training throughout the year. Recording and monitoring of attendance at meetings or training events ensures the requirements of the Training Plan are met.

At the June 2019 meeting the Pensions Committee and Pension Board agreed to undertake the online Public Service Toolkit produced by The Pensions Regulator.

The Training Report and Training Policy was approved at the June 2022 Pensions Committee. It was recommended that Committee and Board members work through

and complete the Hymans LGPS Online Learning Academy (LOLA), and on an ongoing basis thereafter as new versions were delivered.

Pensions Committee - Mandatory Training Record as at 31 March 2024				
Name	Hymans Robertson LOLA Version 1.0*	Hymans Robertson LOLA Version 2.0*	TPR Toolkit	Attended
Cllr John Cooke	✓	✓	✓	3/3
Cllr Neil MacGregor	✓		✓	2/3
Cllr Dell Henrickson	✓	✓	✓	3/3
Cllr Alison Alphonse				0/3
Cllr Derek Davidson				0/3
Cllr Duncan Massey	✓		✓	2/3
Cllr Jennifer Bonsell	✓			1/3
Cllr Kairin van Sweeden**				0/2
Cllr Sarah Cross**	✓			1/3
Cllr Alex McLellan**				0/2
Cllr Ciaran McRae**				0/2
Cllr Christian Allard**				0/2

Pension Board - Mandatory Training Record as at 31 March 2024				
Name	Hymans Robertson LOLA Version 1.0*	Hymans Robertson LOLA Version 2.0*	TPR Toolkit	Attended
Morag Lawrence	✓		✓	2/3
Cllr Stephen Smith	✓			1/3
Cllr Jessica Mennie				0/3
Cllr Graham Leadbitter				0/3
Cllr David Gordon**		✓		1/2
Ian Hodgson				0/3
Jeremy Lindley**				0/2
Neil Stirling	✓	✓	✓	3/3
Gordon Walters	✓			1/3
Alan Walker	✓	✓	✓	3/3

Notes for Committee and Board tables above:

* Hymans Robertson LOLA Version 1.0 24 June 2022 to 23 April 2023
Version 2.0 24 April 2023 to 31 March 2024

** Leavers/joiners during the year

In addition to the mandatory training, the Pensions Committee and Board were offered 25 additional training opportunities including:

- Introduction training delivered by Laura Colliss, Pensions Manager, for all new Committee and Board members;
- A variety of webinars covering topics from industry experts such as:
 - Pension Dashboards;
 - Cyber Risk;
 - Investment Markets;
- Actuarial training delivered by Mercer;
- The NESPF Finance Forum.

Members had the option to complete further additional training courses outwith those advertised, if they so wished.

5. Administration and Performance

Digital Developments

A primary focus for the NESPF throughout the course of 2023/24 was the development of our new member self service portal.

Following an internal administration review in 2022, the NESPF placed focus on making advancements to its systems and processes. This coincided with the introduction of software developer, Heywood Pension Technologies' (HPT) new member portal and upon seeing the potential opportunities this could bring, NESPF volunteered to be an early adopter.

Working closely alongside Heywood, the Fund commenced its journey, that included extensive testing, to implement a new intuitive platform, My Pension+, which went live in June 2023. The NESPF was the first LGPS in the UK to go live with the platform.

My Pension+ offers an entirely fresh look, with enhanced technologies that vastly improve functionality across the site. Some of the primary developments which went live in June 2023 include:

- Simpler login, without the requirement of usernames and security questions; Members can use their email address and password to access;
- Enhanced security with two factor authentication;
- Simplified navigation and design built with users in mind which incorporates best User Experience (UX) practices;
- Retirement forecasting tools;
- Personalised explanatory videos for complex topics, e.g. Annual Benefits Statements.

Although the new portal is now live, it remains a hybrid system. Not all features of the previous member portal have been developed for My Pension+, with the site linking back to the old portal for specific functionality. As such NESPF and HPT will continue to work closely as the remaining functionality is built, with feature parity the primary focus in 2024/25. In addition to the development of outstanding functionality, further innovative developments to be implemented within the next year include:

- Electronic Identification verification which will allow members to verify their identity when registering, removing the need for Fund intervention and reducing registration lead time;
- SMS multi factor authentication;
- Fully digital, online retirement and refund processes.

Digital Engagement

The delivery of My Pension+ to the Fund's membership was coordinated to coincide with the publication of our Annual Benefit Statements. This resulted in the migration of thousands of members to the new site, with over 12,500 members registered in the first six months after launch.

Registration and migration statistics as at 31 March 2024 are displayed below:

	Registered for My Pension+*	% Members Registered	Migrated to My Pension+	% Members Migrated
Active	15,717	63.0%	7,632	48.6%
Deferred	9,948	59.1%	3,748	37.7%
Pensioners & Dependants	8,675	35.5%	2,540	29.3%
Total	34,340		13,920	

*Based on member headcount

Annual Benefit Statements

Annual Benefit Statements (ABS) in 2023 were delivered online as per previous years, however the medium of Active and Deferred statements differed. Deferred members were able to view an ABS document that had been generated onto their record which they could then download.

However for active members, with the implementation of My Pension+, we were able to provide ABS via a newly designed, regulatory compliant ABS webpage which delivers information in a easy to understand and visually engaging way. As part of the revised ABS area, each active member can access a personalised video, outlining key figures and information in a conversational and user friendly manner. Deferred members will have a similar ABS page available to them ahead of their 2024 Statements.

A key advantage of using digital statements is that it allows us greater performance monitoring. Through website analytics, ABS email testing and establishing key performance indicators such as open and click through rates of email campaigns, the Fund can gain a better understanding of its membership and their behaviours and thus modify its approach to maximise engagement with them.

The overall percentage achieved for providing Annual Benefit Statements to more than 45,000 active and deferred members prior to the 31 August deadline was 99.78% (98.31% 2022/23).

Pension Administration Strategy (PAS)

In December 2022 a revised PAS was approved by the Pension Committee following a full consultation. The aim of the PAS is to aid the delivery of high quality pension administration for the members of the Fund on behalf of its participating employers.

The underlying objectives are:

- To provide high quality pension service delivery;
- Paying pensions and calculating benefits due accurately and on time;
- Good working relationships between the NESPF and its participating employers;
- Delivery of the LGPS requirements in line with the Scheme regulations;
- Compliance around the Codes of Practice put in place around service delivery and service standards.

Processing Performance

Key performance measurement	Target	Work Volume	Target Achieved	2023/24	2022/23
Letter notifying death in service to dependant	5 days	45	39	87%	82%
Letter notifying retirement estimate	10 days	496	478	96%	95%
Letter notifying actual retirement benefit	10 days	1,738	1,596	92%	90%
Letter notifying deferred benefit	10 days	1,980	1,875	95%	96%
Letter notifying amount of refund	10 days	1,178	1,157	98%	98%
Letter detailing transfer in quotes	10 days	176	122	69%	68%
Letter detailing transfer out quotes	10 days	544	303	56%	63%
Total		6,157	5,570	91%	91%

This year saw similar performance to 2022/23 with the overall percentage achieved above 90% for the second consecutive year.

Actual retirement benefit percentage continues to increase and the number of retirement estimate requests continues to fall as members choose to self serve online through My Pension+. Bulk automated processing of deferred benefits for members with Care only service increased to almost 1,000 and continues to deliver efficiency savings.

Transfer processing proved difficult with cases having to be stockpiled from announcement of Superannuation Contributions Adjusted for Past Experience (SCAPE) rate change on 29 March 2023 until new factors delivered in July 2023 and

for cases impacted by McCloud from the date regulations came into force on 1 October 2023 until new guidance was received in March 2024.

McCloud Remedy

In December 2018, the Court of Appeal ruled in *McCloud v Ministry of Justice* that transitional protection offered to some members as part of pension reform amounted to unlawful discrimination. In July 2019 following employment tribunal Government stated difference in treatment would be remedied across all public sector Schemes. This became known as the McCloud remedy with the LGPS (Remediable Service) (Scotland) Regulations 2023 coming into force on 1 October 2023.

Communications were issued in December 2023 to eligible members advising that there was no requirement to do anything whilst the Fund recalculates their benefits. In February 2024 recalculations for 15,227 members identified a total cost of £6,900 for pension and death benefits paid out during the remedy period from 1 April 2015 to 31 March 2022, work is underway to rectify the underpayments.

Delivering the remedy has been challenging, initially the Fund worked closely with employers to identify any missing or incorrect data during the remedy period and this resulted in 3,781 updates to the pensions administration system. The 18 month delay between draft and final regulations caused issues with software already delivered which had to be amended and re-delivered in additional releases. Despite all this the majority of work required to comply with the regulations has been completed.

Employer Data Provision

Throughout the year, good quality, timely data for all active members was provided by the participating employers of the NESPF through the secure online portal, i-Connect. The information uploaded monthly directly updates our member database with starters, leavers, contributions and pay information and ensures that each members personal details are kept up to date.

More than 1 million data events have been uploaded to the pension administration system in 2023/24.

The use of i-Connect for data collection has provided substantial benefits to the fund over the last few years ensuring that the Fund is in the best position to meet the administrative and regulatory requirements of the Scheme.

The benefits include:

- Reduced administrative burden for day to day processing, contribution reconciliation and preparations needed in advance of issuing annual benefit statements;
- Improved data quality allowing the Fund and the participating employers to have confidence in the triennial valuation results;

- Members have access to up to date information on their individual records through My Pension+;
- Significant advantages in respect of the future challenges faced by the Fund around being dashboard ready, applying the McCloud remedy and other regulatory requirements.

The Fund continues to engage with participating employers, the system provider and other pension funds around the development of i-Connect to ensure it continues to deliver data requirements of the ever changing LGPS.

Data Quality

The Fund holds a vast amount of data on our pension administration system. This database holds individual records for each contract of employment for all members including active, pensioner and deferred members. The quality of the data held in relation to these member records directly impacts on all aspects of Fund administration including the calculation of benefits, payment of members pensions and the triennial valuation results.

Due to the method of data collection and the level of checking and reconciliation that is carried out the information held is consistently of a high quality. This provides comfort for the Fund, the participating employers and the members around the accuracy of the benefits held and the funding calculations.

The data quality scores that are provided by the Fund as part of the Pension Regulator annual Scheme return are determined by our data analysis tool, Insights. Dashboards and reports allows us to assess the data held against a number of parameters allowing for direct comparison against previous years and other LGPS funds.

The annual Scheme return scores are as follows:

	2022	2023	Target
Common Data	97.9%	98.7%	100%
Scheme Specific Data	99.2%	99.2%	100%

The Fund's data quality improvement plan is revised annually in an effort to maintain the high quality of data held and explore options for further improvement. This is especially relevant with onboarding to the Pension Dashboards ecosystem scheduled for 2025.

Complaints

NESPF aims to demonstrate the highest level of customer service at all times, however disputes and issues sometimes arise. The Fund takes all complaints seriously and will attempt to resolve issues in an effective and timely manner.

Complaints are handled in accordance with Aberdeen City Council's Complaints Handling Procedure. All complaints the Fund receives are monitored and recorded by the Governance team in the Complaints Register.

If no resolution is possible at the informal stage, the complaint proceeds to the Fund's Internal Dispute Resolution Procedure (IDRP). The IDRP consists of two formal stages. Stage 1 is dealt with by an independent appointed person. If the complainant is not satisfied with the appointed person's decision, the matter proceeds to Stage 2 of the process which is dealt with by the Scottish Ministers.

The table below is an analysis of those complaints received during 2023/24. There were 11 complaints made during the year. Of the 7 complaints that were within the Fund's scope to help remedy, all were resolved at the informal stage.

Complaint Analysis	Number of Complaints
Waiting Time – Correspondence	3
Processing Delay	3
Staff Knowledge	1
No NESPF Power to Remedy	4
Total Complaints	11

Complaints may not always relate to a NESPF decision or process, for example it may relate to an employer decision, e.g. ill health retirement. In these instances the complainant may take their complaint directly to the Pensions Ombudsman.

Not included in the above is one prior year complaint, which was submitted to the Pension Ombudsman Stage during 2023/24. The case is ongoing.

The full complaints procedure and IDRP process is on our website: <https://www.nespf.org.uk/about/complaints>.

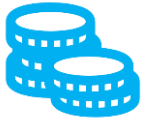




Actuarial Valuation







The work around the triennial exercise to value the liabilities held within the North East Scotland Pension Fund commenced in 2022 well in advance of the effective date. The valuation as at 31 March 2023 was carried out by Mercer, the Scheme actuary, to determine the overall funding level as well as determine the individual contribution rates for all participating employers within both Funds.

All work including determining the methodology and assumptions that were to be applied by the Scheme actuary, and the gathering and reconciliation of member data were all carried out in line with the valuation timelines with indicative results and suggested contribution requirements being made available for the Fund and participating employers in late 2023. This allowed the Employer Relationship Team to begin the process of communicating with the individual employers around the appropriateness of the assumptions used by the actuary, affordability and funding.

The valuation certificate was signed off by the Scheme actuary in March 2024 following the completion of the consultation process, reaching an agreement on the contribution rates for each employer and approval from the Pensions Committee. The valuation reports detailing the funding levels, the finalised rates and providing some climate change analysis were issued to all employers, provided to the Scottish Public Pensions Agency (SPPA) and published on the Funds website following the completion of the actuarial process. The actuarial statement (appendix 1) outlines the valuation outcomes.

6. Financial Performance

2023/24 at a Glance	
<p>£179m</p>  <p>Additions</p>	<p>£231m</p>  <p>Withdrawals</p>
<p>£26m</p>  <p>Management Expenses</p>	<p>£533m</p>  <p>Net Return on Investments</p>
<p>£6,237m</p>  <p>Net Assets of the Fund at the End of the Year</p>	

Key Statistics	
<p>41</p>  <p>Total Number of Employers</p>	<p>77,865*</p>  <p>Total Membership</p>
<p>1,554</p>  <p>Votes at AGMS</p>	<p>52%*</p>  <p>Members Registered for My Pension+</p>
<p>42.5</p>  <p>Staff Employed (FTE)</p>	<p>1,832</p>  <p>Members to Staff Ratio</p>

*Total membership is based on membership records as a member can have more than one record. Equivalent number in terms of member headcount is 66,213. This figure is used for the percentage of Members registered for My Pension+.

North East Scotland Pension Fund Financial Summary

From the year 2022/23, the following tables are the merged figures for the NESPF and ACCTF.

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Contributions Less Benefits and Expenses paid Net Additions/ (Withdrawals)	(30,977)	(51,481)	(33,048)	(34,257)	(78,570)
Net Investment Income Change in Market Value Net Return on Investment	(71,648)	1,462,128	181,752	(342,832)	532,616
Transfer In of ACCTF at Market Value	0	0	0	290,035	0
Revaluation of Insurance Buy In Contract	0	0	0	(35,062)	(20,924)
Net Increase/ (Decrease) in Fund	(102,625)	1,410,647	148,704	(122,116)	433,122
Fund Balance as at 31 March (Market Value)	4,366,542	5,777,189	5,925,893	5,803,777	6,236,899

The monies belonging to the North East Scotland Pension Fund are managed entirely by appointed fund managers and are held separately from any of the employing bodies which participate in the Fund. The only exception to this is a small investment in Aberdeen City Council's Loan Fund, which varies year on year and represents surplus cash from contributions not yet transferred to the fund managers.

After meeting the cost of current benefits, all surplus cash is invested and the value of investments is then available to meet future liabilities.

Budget

	Note	Actual Spend 2023/24 £'000	Budget or Forecast 2023/24 £'000	Over or (Under) Spend 2023/24 £'000
Administration Expenses	1	3,113	3,032	81
Oversight and Governance Expenses	2	872	1,119	(247)
Investment Management Expenses	3	22,039	19,886	2,153
Management Expenses Total		26,024	24,037	1,987

Where the variance is +/- 5%, an explanation is given below:

1. Over spend – Pay award and one off IT costs.
2. Under spend – Although there were increases in the Actuarial Fees and General Expenses those increases were less than anticipated.
3. Over spend – The upturn in markets has meant that generally the assets held have risen therefore Investment Management Fees & Expenses based on Net Asset Values (NAV) have also increased.

Membership Statistics

NESPF	2019/20	2020/21	2021/22	2022/23	2023/24
Active	26,275	26,315	26,961	27,751	27,708
Pensioners	22,156	22,692	23,854	26,146	27,171
Deferred	17,965	17,704	18,150	19,379	19,246
Frozen Leavers	3,021	2,664	3,111	3,602	3,740
Total	69,417	69,375	72,076	76,878	77,865

Active membership appears to have remained stable from 2022/23 to 2023/24 and may reflect the continuing budgetary pressure faced by the Local Authorities as, in previous years, there has consistently been an increase to the active membership totals. The number of deferred members has remained consistent indicating that members accessing their pensions and transferring their benefits have been in line with the number of leavers. Pensioner numbers have increased in line with previous years despite the early retirement exercises currently being undertaken by Local Authorities. Frozen leavers represent the members who have left the Scheme and have yet to claim their entitlement to a contributions refund or a transfer of their entitlement.

Management Expenses

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Administration	1,822	2,236	2,388	2,958	3,113
Oversight and Governance	422	713	615	743	872
Investment Management	17,953	23,820	23,901	17,767	22,039
Total Management Expenses	20,197	26,769	26,904	21,468	26,024

Unit Cost Per Member

	2019/20 £	2020/21 £	2021/22 £	2022/23 £	2023/24 £
Administrative Unit Cost per Member	26.25	32.23	33.13	38.48	39.98
Oversight and Governance Unit Cost per Member	6.08	10.28	8.53	9.66	11.20
Investment Management Unit Cost per Member	258.62	343.35	331.61	231.11	283.03
Total Cost per Member	290.95	385.86	373.27	279.25	334.21

Remuneration Report

There is no need to produce a remuneration report as the Fund does not directly employ any staff. All staff are employed by Aberdeen City Council and their costs reimbursed by the Pension Fund. The councillors who are members of the Pensions Committee and the Pension Board are also remunerated by the Council.

Note 22 to the Accounts details the Key Management Personnel. Councillor and senior employee remuneration is detailed within the Remuneration Report of Aberdeen City Council's Financial Statements.

7. Economic and Market Background

Global Market

The past financial year was marked by volatility driven by high inflation and rapid interest rate hikes. The stock market oscillated between fears of recession and hopes of interest rate cuts as inflation moderated. The market overall rallied with the Morgan Stanley Capital International All Country World Index (MSCI ACWI) GBP returning +20.6% as technology stocks, especially those related to Artificial Intelligence (AI), dominated while the rest of the market took time to catch up. Policymakers were focused on balancing the risk of recession with persistent inflation. While the Federal Reserve held rates steady, it signalled the intention to cut rates in 2024. The European Central Bank (ECB) and Bank of England (BoE) also maintained a cautious stance. Despite the potential delay in rate cuts, the financial markets continued to post positive returns, driven by the anticipation of returns from AI in the technology sector and the performance of value stocks towards the latter part of the period.

US Equities

During the year ending 31 March 2024, the US equity markets experienced a strong and sustained rally. The S&P 500 index gained 29.88% during the 1 year period, with high growth stocks leading the way. Last March, exuberance around AI helped the market shake off the turbulence of the regional banking crisis. The market rally was driven by positive economic conditions, including the Federal Reserve's expected rate cut timeline, strong earnings, low unemployment, and high consumer spending. In terms of index performance, the Russell 1000 Growth index outperformed the Russell 1000 Value index over the 1 year period, on the backs of the "Magnificent Seven" tech giants (Microsoft, Apple, Nvidia, Amazon, Meta, Tesla, and Alphabet), which accounted for a significant portion of the growth index returns. While sentiment in the market shifted positive over the last year with many market participants growing increasingly bullish in their outlooks, questions remain on the continued growth of productivity, outlook for inflation and long term effects of higher interest rates.

UK Equities

2023 was another year where markets remained focused on interest rate policy and inflation, as central banks deliberated on how to respond to a mixed picture from the inflation data. Central bankers had been quick through the year to reaffirm their commitment to curbing inflation, highlighting the need for rates to remain elevated against the backdrop of falling goods inflation, but services inflation remained sticky, driven by tight labour markets. Further volatility was sparked through the year, first as the collapse of Silicon Valley Bank and Signature Bank led to concerns of a banking

crisis in the US. This was shortly followed by a disruption in the financial sector in Europe as Credit Suisse was taken over by UBS in a deal brokered by the Swiss National Bank. Then followed the rise of AI, with divergence driven by the perceived beneficiaries versus the victims, and finally the outbreak of war in the Middle East. At the end of 2023 interest rate expectations fell sharply and risk assets rallied. Global equity markets rallied at the start of 2024 on strong earnings from technology names, despite mixed macroeconomic data. The Financial Times Stock Exchange (FTSE) All Share rose 8.4%, however lagged global equity markets on concerns around growth in China, notably in the commercial real estate market.

European Equities

European equities delivered very strong returns over the last year, despite a backdrop of cautious sentiment given concerns over a potential recession, weaker China macro data and geopolitical risks. The asset class remains under owned by investors and we observe a generally defensive positioning. European markets particularly started to rally from November 2023 on into the end of the period as market expectations began to look past the potential for recession which had clouded sentiment for more than 18 months. This move was supported by a dramatic fall in energy prices in the region, which had risen because of the Russian invasion of Ukraine, feeding through, amongst other factors, into lower inflation and an increasing likelihood of cuts to interest rates. During the most recent earnings season, we noted more companies speaking of stabilisation and/or potential for improvement, with very clear trajectory for increasing orders in certain end markets.

Emerging Markets Equities

MSCI Emerging Markets ended the period up 8.5%, materially underperforming Developed Markets, which gained +25.7%. Emerging Markets started 2023 on a strong note as sentiment surrounding China equities meaningfully reversed amid growing excitement around China's much awaited reopening from the Covid-19 pandemic, and the market was hopeful for a peaking US dollar. However, China's reopening ultimately disappointed and the US proved remarkably resilient despite aggressive monetary tightening. Elsewhere the trend of generative AI propelled the technology sector to substantial gains and Taiwan reached all time highs towards the tail end of Q1 2024 as the cases for AI grew.

Regionally, Latin America emerged as the top performer over the period with a 23.4% increase. Peru stood out as one of the strongest performers, largely due to the sustained high demand for its primary export, copper, in the wake of the AI boom. The Central and Eastern Europe, Middle East, and Africa (CEEMEA) region saw a 10.6% rise. Asia, excluding Japan, lagged (+4.3%), primarily due to China's weakness.

Japanese Equities

Japan equity markets gained during this period, driven by heightened expectations of corporate reforms by Tokyo Stock Exchange, Semiconductor and other related growth stocks positioned to benefit from the adoption of AI, and greater inbound demand by foreign tourists.

In April, the market experienced a rally triggered by statements by American Investor Warren Buffet accompanied by expectations for structural reforms in domestic companies, such as improvement in Price to Book Ratio, reopening of the economy causing greater inbound demand, and continuation of accommodative monetary policy. Furthermore, the market experienced a rally in growth stocks, fuelled by heightened expectations for AI related companies. Following such rout, the market experienced profit taking along with higher US long term interest rates which impacted US and Japan markets. However, as the market factored in rate cuts, lower treasury yields helped US and Japan equities to soar. Coming into 2024, data further confirmed that Japan is finally breaking out of the deflationary cycle and entering a virtuous cycle of price increases and wage hikes. Although Bank of Japan (BoJ) has ended its negative interest rate policy, such reversal, confirmed Japan's return to normal policy and above mentioned cycle of prices increases and wage hikes.

Bonds

Q2 2023 saw negative bond market sentiment, as economic data points in developed markets pointed to an environment in which central banks would need to continue increasing interest rates to slow down the economy. In the US, the March Year on Year (YoY) Consumer Price Index (CPI) inflation rate accelerated by 5.0% YoY. This was slightly below the consensus expectation of 5.1%, and a notable decline from the February CPI number of 6.0%. By the end of the quarter, the Federal Reserve had paused their interest rate increases. Uncertainty surrounding the ongoing US debt ceiling negotiations contributed to the negative sentiment. In May, a debt ceiling deal was agreed which included a suspension of the debt ceiling until January 2025. Euro area inflation also printed in line with expectations, with March headline and core inflation rising to 6.9% and 5.7% YoY respectively. Meanwhile, in what was a second consecutive upside surprise in the UK, prices accelerated by 10.1% having been expected to accelerate by only 9.8% YoY in March. The ECB and the BoE increased interest rates over the quarter. UK Inflation once again surprised to the upside with core at 7.1% YoY vs expected 6.8%. The UK became the only country in the G7 with rising inflation.

Q3 2023 saw mixed bond market performance, driven by the release of generally soft economic data, and views on longer term inflation and interest rates. As widely expected, after pausing its aggressive rate hiking trajectory in June, the Federal Reserve raised key interest rates during the month. The US CPI inflation rate for the

month of June accelerated by 3.0% YoY. The ECB also raised rates during the month. In the Euro Area, Gross Domestic Product (GDP) figures increased by 0.3% quarter on quarter as expected. Once again in the UK, the main story for the month was inflation, with core inflation remaining high while Services CPI rose, and headline inflation met expectations. The BoE raised rates to 5.25%. Global bond market sentiment ended the quarter negative as developed market government bond yields generally rose over the month, driven mostly by hawkish projections by the Federal Open Market Committee (FOMC), which left its policy rate unchanged at 5.25% to 5.50%. In Europe, the ECB raised its key interest rates, while the BoE maintained the Bank Rate at 5.25% following the drop in inflation. However, they cut their forecasts for economic growth for the second quarter while warning rates may need to remain at these high levels.

Global bond market sentiment was generally negative at the start of Q4 2023, driven predominantly by a continued 'higher for longer' narrative and solid economic data in the US. In the US, the CPI inflation data for September showed increases in the Month over Month (MoM) core and headline rates. Euro area headline inflation fell from 2.9% YoY in October, below consensus. CPI inflation data was published during the month in the UK. On a YoY basis prices increased marginally ahead of expectations in September, with headline inflation printing at 6.7% against the 6.6% expected. By the middle of the quarter, many believed that developed market central banks had finally reached the end of their tightening cycles. In the US, headline CPI inflation was flat on the month, holding the YoY inflation rate. In the Euro Area, headline CPI inflation surprised to the downside and MoM CPI decelerated, as did UK inflation. Global bond markets finished the year on a highly positive note, with bond yields falling notably in developed markets in December. In the US and the Euro area, November CPI inflation printed in line with expectations. In the UK, YoY November CPI was lower than expected.

With the start of Q1 2024, global bond markets experienced a slight downturn, with economic data and central bank communications not swaying expectations for rate cuts in 2024, despite a challenging start to the year for risk assets. The Federal Reserve maintained its policy rate, and the ECB noted a declining inflation trend, while BoJ continued its ultra loose policy. Europe's GDP growth was stagnant, but jobs growth showed a slight increase, and the ECB maintained its rates. The BoE held the bank rate steady with a dovish tone, and the unemployment rate was lower than expected. The quarter ended on a high in March, where global bond market sentiment was positive, with tightening spreads and slightly reduced yields. The US ended the quarter with a slight decrease in core CPI both MoM (0.35%) and YoY (3.8%), while Europe confirmed its annual inflation rates to be in line with estimates, and the UK experienced a drop in CPI inflation YoY (3.4%). Japan's CPI figures were in line with expectations. Government bond yields in developed markets fell modestly, with US treasury yields, German bund yields, and UK gilt yields all declining. Most G10

currencies weakened against the US dollar, except for the Canadian and Australian dollars which appreciated slightly.

UK Property

The past year has been a dynamic period for the UK real estate market, characterised by a mix of challenges and opportunities. At the end of 2023, we reflected on what was a very challenging year for the UK real estate markets, as investors grappled with the implications of higher costs of debt and falling valuations. In the prior 18 months, we have seen inflation remain persistently high and, as a result, have witnessed continual rises in the base rate, totalling 500 basis points in that time. The ramifications of such a large change in the macro environment have been felt throughout all financial markets. This has affected all assets and led to repricing in line with this fundamental rebasing as the period of great moderation comes to an end.

In the UK, debt costs continued to remain above yields, even for prime properties, which caused a widening of the bid ask spread as buyer and seller expectations moved further apart. The lack of price discovery from subdued transaction activity made it difficult to monitor pricing and led to a steep decline in liquidity across all sectors. Capital market activity ended the year on a weak note. In 2023, UK All Property transaction volumes totalled £32 billion, which is 42% below the five year average. As yields decompress in 2024, we expect buyer and seller expectations to become more aligned, supporting a pickup in transaction volumes.

We began to observe a degree of stabilisation by the end of Q4 2023. Valuations remained steady for several months following a 22% decline in the UK real estate market from peak pricing in June 2022. This reflected a level of transparency compared to much of the rest of the world and indicated that the significant correction appears to be behind us.

It seems that an inflection point is imminent in 2024, with inflation seemingly on a downward trajectory and interest rates at the peak of the hiking cycle as the BoE held rates steady at 5.25%, and forward guidance is becoming slightly more dovish. The renewal in the relative attractiveness of the UK real estate market will be driven by the first rate cut forecasted to happen later in 2024, coupled with the growing optimism surrounding the UK's macroeconomic climate, now in expansionary territory, translating to a more positive outlook for the real estate market going into 2024.

Market Returns	1 Year (% p.a.)	3 Year (% p.a.)	5 Year (% p.a.)
Equities			
FTSE All Share Index	2.9	13.8	5.0
FTSE All World Index	-6.9	15.9	7.4
FTSE All World ex UK Index	-7.2	15.9	7.6
FTSE North American Index	-3.1	18.0	13.1
FTSE European (ex UK) Index	2.1	14.9	4.9
FTSE Japan Index	2.0	7.8	3.9
FTSE Developed Asia (ex Japan) Index	-9.5	14.0	2.5
FTSE Emerging Markets Index	-4.3	29.4	13.9
Bonds			
FTSE Actuaries UK Conventional Gilts All Stocks Index	-16.3	-9.1	-3.1
ICE BofA Sterling Non Gilts Index	-10.3	-3.1	-0.8
FTSE Actuaries UK Index Linked Gilts All Stocks Index	-26.7	-7.6	-3.2

Source: Bloomberg

8. NESPF Investment Strategy

The Fund's Investment Strategy is one of diversified investment. This means that investments are spread across different investment asset types and different countries, sectors and companies in order to reduce the overall risk.

There are a range of Fund Managers employed to again spread risk, with different style biases, each with clear and documented agreements in place detailing their investment mandates. In addition, the Fund employ an independent Global Custodian.

The objective of the Investment Strategy is to deliver long term returns which are greater than the growth in expenditure to be paid out in pensions. The investment strategy is monitored on an ongoing basis by the Pensions Committee and Pension Board, focusing on long term investment with consideration given to short term tactical considerations if appropriate.

The suitability of particular investments and types of investments are detailed in the Statement of Investment Principles. The Fund takes proper advice at reasonable intervals regarding their investments through their appointed advisors.

Asset Structure 2023/24

Asset Class	Distribution as at 31 March 2023		Distribution as at 31 March 2024	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
Equities (including alternative assets)	63.3	55.0	63.5	55.0
Bonds/Credit	17.7	22.5	17.9	22.5
Property/Infrastructure	15.9	20.0	16.4	20.0
Cash/Other	3.1	2.5	2.2	2.5
Total	100.0	100.0	100.0	100.0

During the first part of 2023 and given the volatility in markets, NESPF slowed its rebalancing efforts, making selective and tactical changes in line with its investment strategy where appropriate. Given the rise in equity markets towards the back end of 2023 and into 2024, this has positively increased the overweight to equities and therefore allocations have been made to infrastructure and direct lending, with more rebalancing to follow.

The current Investment Strategy for the North East Scotland Pension Fund is set out in the Statement of Investment Principles as follows:

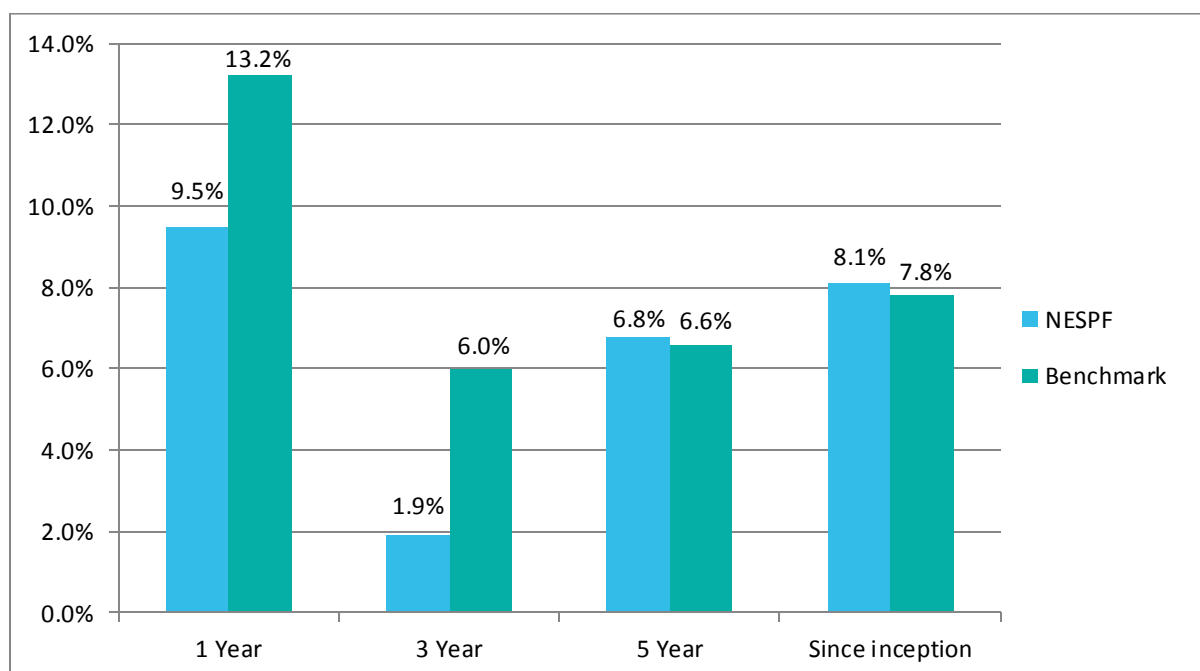
Equities	50.0% (range +/- 5%)
Alternative Assets (including private equity)	5.0% (range +/- 5%)
Bonds/Credit	22.5% (range +/- 5%)
Property/Infrastructure	20.0% (range +/- 5%)
Cash/Other	2.5% (range +/- 5%)

North East Scotland Pension Fund Performance

Investment returns over the last year have been strongly positive delivering 9.5%, given a difficult market backdrop with constant changes regarding sentiment towards interest rates and inflation affecting different asset classes. In the shorter term some of the active Equity holdings are behind benchmark, but performance is beginning to turn around and the NESPF has conviction in these positions as a long term investor. A number of benchmarks are also arbitrarily higher this year on Sterling Overnight Index Average (SONIA) targets, which is not necessarily reflective of the asset class it is measuring against.

It is notable that the NESPF continues to outperform the benchmark returns over longer periods and similarly comparators such as CPI and Average Earnings over the longer term. This provides assurance that the Fund's Investment Strategy works and will continue to deliver the required returns over the longer term.

The graph below shows the NESPFs performance over the short, medium and long term against the Fund’s customised benchmark.



Whilst employee contribution rates and benefits payable are set by statute, the long term liabilities of the NESPF are linked either to wage inflation or to price inflation. It is the NESPFs performance against these benchmarks that affect the long term employer contribution rate, which is variable. Over the longer term, the performance of the NESPF remains ahead of both Average Earnings and CPI.

Year Ending	2021/22	2022/23	2023/24	Since Inception Annualised
	%	%	%	%
CPI*	7.0	10.1	3.2	2.9
Average Earning*	7.0	5.8	5.7	3.3
NESPF Return	2.4	-4.1	9.5	8.1

*Source: Office of National Statistics

Investment Management Structure

Details of the Investment Management Structure is in the “Investments Analysed by Fund Manager” Note to the Accounts.

9. Risk

A key element to risk management is the structured delegation of powers from the Council to the Pensions Committee and then to Senior Officers. To complement the delegation to Senior Managers, there is extensive and detailed accountability back to Committee on how these delegations have been exercised. Full details of the structure of delegated powers are contained in the Pension Fund's Governance Statement.

Investment Risk is recognised as falling into two distinct areas: Manager Skill (alpha) and Market Risk (beta). The structure of the Investment Strategy reflects this and is designed with the support of external expert advice. Details are contained in the Statement of Investment Principles and the Funding Strategy Statement.

The operational management of investment risk forms the basis of quarterly reporting to the Pensions Committee and Pension Board.

The Fund's approach to risk is dynamic and can be revised in response to short term market events.

Benefit Risk is also recognised as falling into two distinct areas: Operational Risk (regulation compliance and staffing) and Information Technology (IT) risks. The risks associated with the operational payment of benefits and recording of pensioner records produces a complex set of risks. These are mitigated with the use of a dedicated pension administration system that is thoroughly and regularly tested, combined with the hierarchical checking of output by pension staff. IT risk is mitigated by using an externally hosted benefit administration system subject to regular update and review.

It is recognised that all services are very dependent upon third party contracts ranging from IT through to investment managers. All are subject to regular review and monitoring.

Risk Management

Risk management is an ongoing process with quarterly reporting provided to the Pensions Committee and can be found within the Committee packs. These reports detail the progress achieved in the implementation of the action plan, the ongoing review of the Risk Register and reporting of new risks that have been identified. It is also key that the Fund has its own dedicated Risk Management Policy which forms part of the Risk Management Framework along with the Risk Register.

10. Funding Strategy Statement

The long term objective of the Fund is to achieve and maintain sufficient assets to pay all pension benefits as they fall due. The Funding Strategy Statement (FSS) addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The purpose of the FSS is therefore:

- To establish a clear and transparent Fund specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer term view of funding those liabilities.
- To establish contributions at a level to "secure the solvency" of the Pension Fund and the "long term cost efficiency."
- To have regards to the desirability of maintaining, as much as possible, a constant primary contribution rate.

The FSS is required as part of Regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2018. As part of the 2023 actuarial valuation, the FSS for the North East Scotland Pension Fund was reviewed, with employers consulted on the revised version.

The full statement is available at www.nespf.org.uk.

11. Statement of Investment Principles

This statement sets out the principles governing decisions about investments for the North East Scotland Pension Fund. All investment decisions are governed by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2016. The Fund objective is to meet benefit liabilities as they fall due at a reasonable cost to participating employers, given that employee contributions are fixed. “Reasonable” in this context refers to both the absolute level of contribution – normally expressed as a percentage of pensionable payroll – and its predictability. The employer contribution rates are impacted by both the assessed level of funding (ratio of the value of assets to liabilities) and the assumptions underlying the actuarial valuation.

The NESPF target is to maintain a 100% funding level. ‘Growth’ assets, such as equities, are expected to give a higher long term return than ‘liability matching’ assets, such as bonds. The benefit of higher investment returns is that, over the long term, a higher level of funding should achieve lower employer contribution rates. However, the additional investment returns from growth assets come with a price: greater volatility relative to the liabilities, thus introducing risk. The risk is evidenced by the potential volatility of both the funding level and the employer contribution rate. There is therefore a trade off between the additional investment return from greater exposure to growth assets and its benefits – higher funding level, lower employer contribution level – and the benefits of greater predictability – of both funding level and employer contribution rate – from having greater exposure to liability matching assets.

The trade off and its consequences on both funding level and employer contribution level, were examined by the Pensions Committee and led to the strategic benchmarks.

The full statement is available at www.nespf.org.uk.

12. Environmental, Social and Governance Issues

Responsible Investment & Engagement

As a long term investor the Fund has a duty to engage with the companies we invest in on Environmental, Social and Governance (ESG) issues, and to work with others to effect change.

What does this look like in practice?

There are several things that we as an investor can do to make changes for the better.

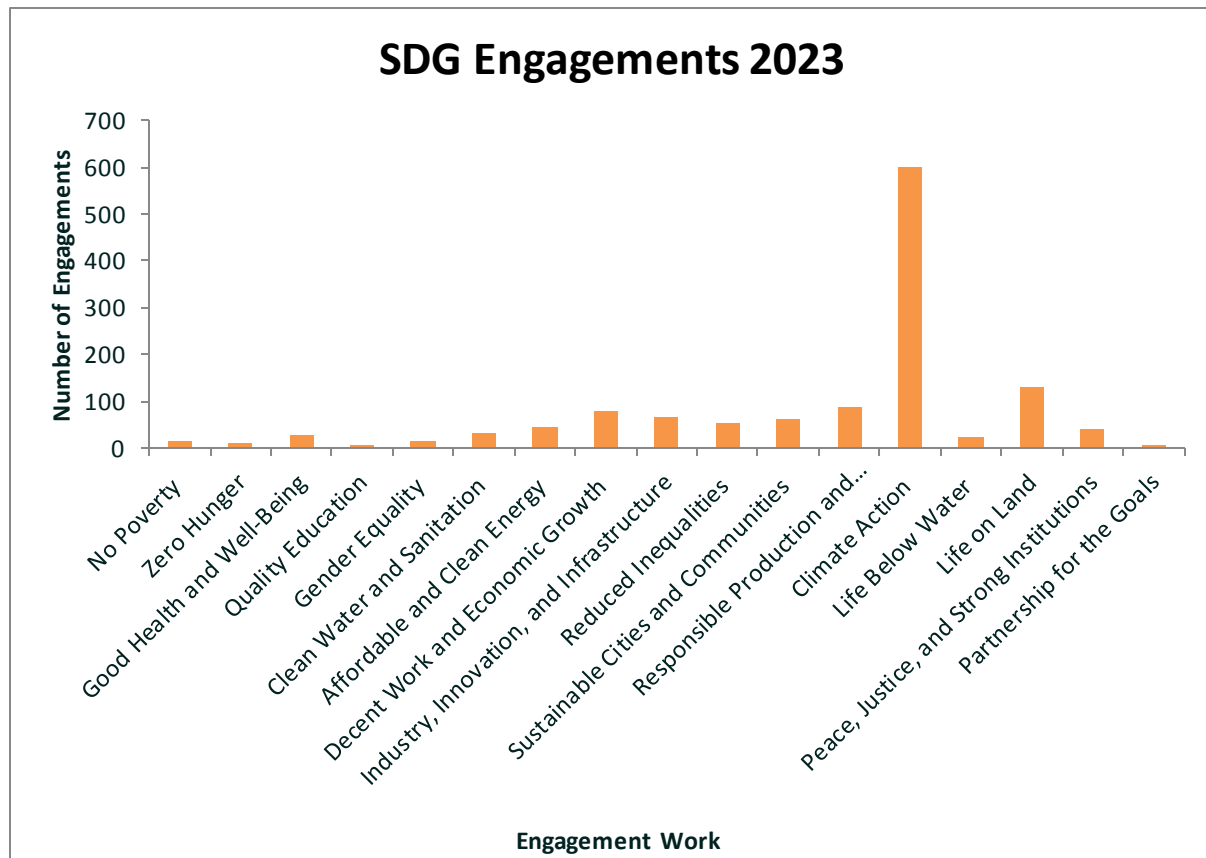
Collaboration

There are limits to what we can achieve as a single investor and we believe greater progress can be made through collaboration with other investors. Our main collaboration is with the Local Authority Pension Fund Forum (LAPFF). We also engage with our Fund Managers on a regular basis.

LAPFF brings together a diverse range of Local Authority Pension Funds (87 funds and 6 pools) with combined assets of over £350 billion. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss shareholder engagement and investment issues.

The graph below breaks down the engagements LAPFF has carried out in relation to the Sustainable Development Goals (SDG). The 17 SDGs are integrated. LAPFF recognise that action in one area will affect outcomes in others, and that development must balance social, economic, and environmental sustainability.

LAPFF engagement work examples are noted below:



Mining and Human Rights

Context – LAPFF has been engaging with major mining companies on human rights for the last five years. This engagement stemmed from tailings dam collapses in Brazil linked to mining companies BHP, Vale and from Rio Tinto's destruction of cultural heritage at Juukan Gorge in Australia.

Activities –LAPFF has undertaken an engagement with Grupo Mexico in relation to a tailings pond leak at one of its operations in Sonora, Mexico. Certain health problems and environmental damage – in particular, water contamination – are linked to this leak. LAPFF has met once with the company and once with affected community members at this stage and will look to progress the engagement in the coming year. Human rights engagements with Rio Tinto and Anglo American are continuing too.

LAPFF also attended the 2024 African Mining Indaba in Cape Town, South Africa in first quarter of 2024.

Outcomes – Positive outcomes for LAPFF members after visiting Brazil is that LAPFF published a report of its findings after thorough engagement with both the affected communities and the companies involved. Translation of the report into Portuguese was also completed.

LAPFF is continuing to work with Rio Tinto to ensure that their relationship with communities affected by their operations globally are improving.

Engagement with Anglo American is taking place primarily through LAPFF's participation in the new Principles for Responsible Investment (PRI) Advance human rights initiative.

LAPFF submitted a response to the United Nations (UN) Working Groups consultation on investors and ESG, which included the submission of its reports and work with affected community members. This focus appears to be of interest at the international level, and LAPFF will continue to work with the UN Working Group and other stakeholders to inform best practice on mining and human rights, while linking the work to financial materiality for investors.

Climate

Context – Drax owns the UK's largest power generation site in Yorkshire. It consists of a coal burning plant converted to burning wood pellets, mainly imported from North America. It meets approximately 7-8% of the UK's electricity demand. Despite the switch from coal, Drax is the UK's largest carbon emitter as stated in research by climate think tank Ember and is government subsidised.

Drax uses the concept of 'dynamic carbon sinks' to justify its claims to carbon neutrality, i.e., forests are harvested and the wood that is burned regrows.

Activities – LAPFF engaged with Drax in first quarter of 2024 as there are questions about the time scale over which new growth of trees will compensate for the >10 Million Tonnes (MT) of CO₂ Drax emits each year. The Forum sought to understand the company's business model, associated risks and sustainability of the supply chain for wood pellets for combustion at Drax Power Station, which are mainly imported.

LAPFF responded to the consultation from the Department of Energy Security and Net Zero on prolonging the subsidy to Drax. LAPFF's response to the consultation covered the evidence that Drax's supplies of wood are not carbon neutral, nor sustainable as a supply source (being dependent on US imports). BBC Panorama had its second exposé of Drax's activities that showed that not only has Drax been cutting and using whole trees, but that the trees cut were from rare forest wood, rather than managed plantations.

LAPFF attended the 2023 AGM and there was significant unease at Drax's activities, with no shareholders speaking positively. There were also representations from people in the southern US states concerned about cutting down primary forest and health affecting emissions from pellet plants.

Outcomes – Achievements have been wholly negative as LAPFF has seen no evidence that the forest stock in the US is growing to offset Drax's emissions. From Drax commissions "catchment area" reports it is apparent that rather than a quantitative test to prove contemporaneous offset, the test in the reports is that forest stock is not shrinking. There is significant concern that Drax is contributing to net increases in atmospheric carbon, in addition to wood being an inefficient source of

energy which, per unit of energy obtained, creates more carbon emissions than even coal.

Drax's answer is that things will be clearer once the company is able to capture carbon from its burning by using carbon capture technology. However, that is not proven at scale and is heavily subsidy dependent, on top of an already exceptionally large subsidy required for pellet burning. Drax's activities continue to attract cross party criticism.

The above are just a couple of examples of engagement carried out by LAPFF, more in depth information can be found at <http://www.lapfforum.org>.

Fund Managers

It is the role of the Fund's fund managers to incorporate analysis of ESG issues into their investment analysis. They are expected to engage on these issues with the companies in which they invest, and ensure that their decisions are in keeping with the Fund's ESG approach.

Through our fund managers we can engage with companies more directly by raising concerns and meeting with Senior Management and Executives. Fund managers report their engagements on a quarterly basis so we can monitor engagement activity.

The below is one example of such activity being undertaken through one of our Fund Managers.

Biodiversity on offshore wind farm

Through one of our Infrastructure portfolios the Fund invests in an offshore wind farm in the Dutch part of the North Sea, on the border with Belgium. The biodiversity of the construction site was assessed as the project commenced. The action taken was the release of 2,400 flat oyster tables. The oyster tables were placed on the base of some of the wind turbines in October 2020.

A team of researchers reviewed the oyster tables in 2023. The outcome being they discovered in addition to the survival, presence and growth in oyster larvae they also increase biodiversity. For this they used Environmental DNA traces in the water and an underwater camera, The underwater water videos showed a lot of life around the foundations with a total of the 65 species found. The researchers will return with the hope of seeing the oysters have settled in the shell layer and rock surrounding the wind turbine.

Other ways the Pension Funds collaborate are by being members/signatories of the following ESG initiatives:

- 2022 Global Investor Statement;
- 2022 Non Disclosure Campaign (NDC);
- Bangladesh Accord on Fire and Building Safety (the Accord);
- Climate Action 100;

- Carbon Disclosure Project;
- Principles for Responsible Investment.

Further information on these initiatives can be found on our website:
<https://www.nespf.org.uk/about/investment/responsible-investment/>.

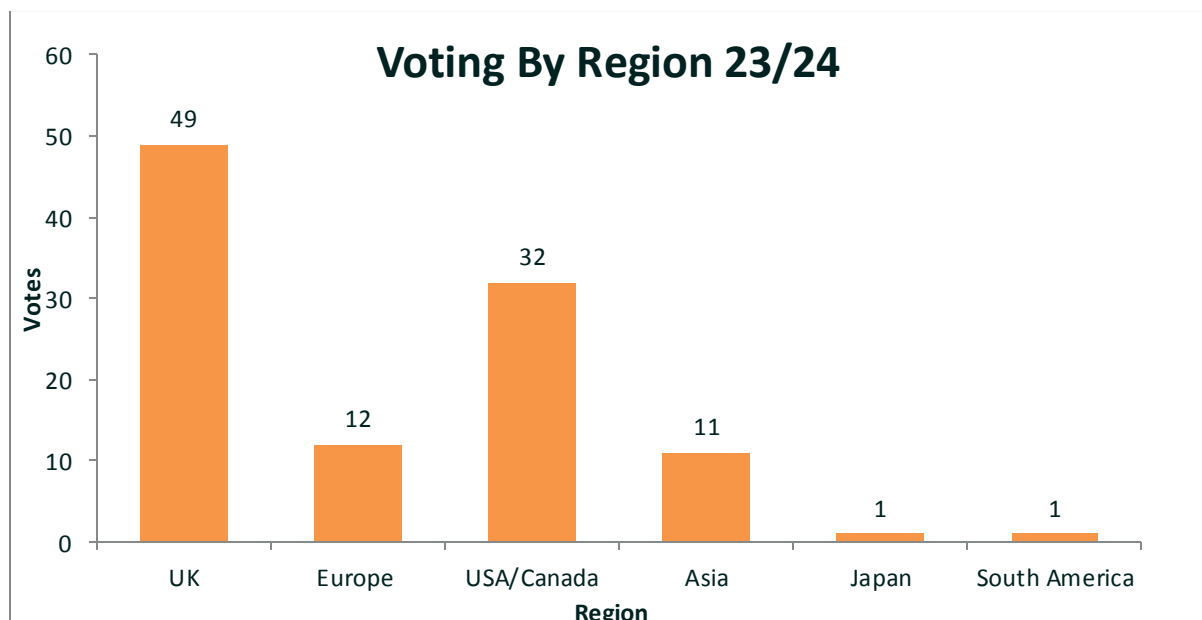
By working together, we and other investors can use our collective size to influence decision making and promote the highest standards of corporate governance and corporate responsibility.

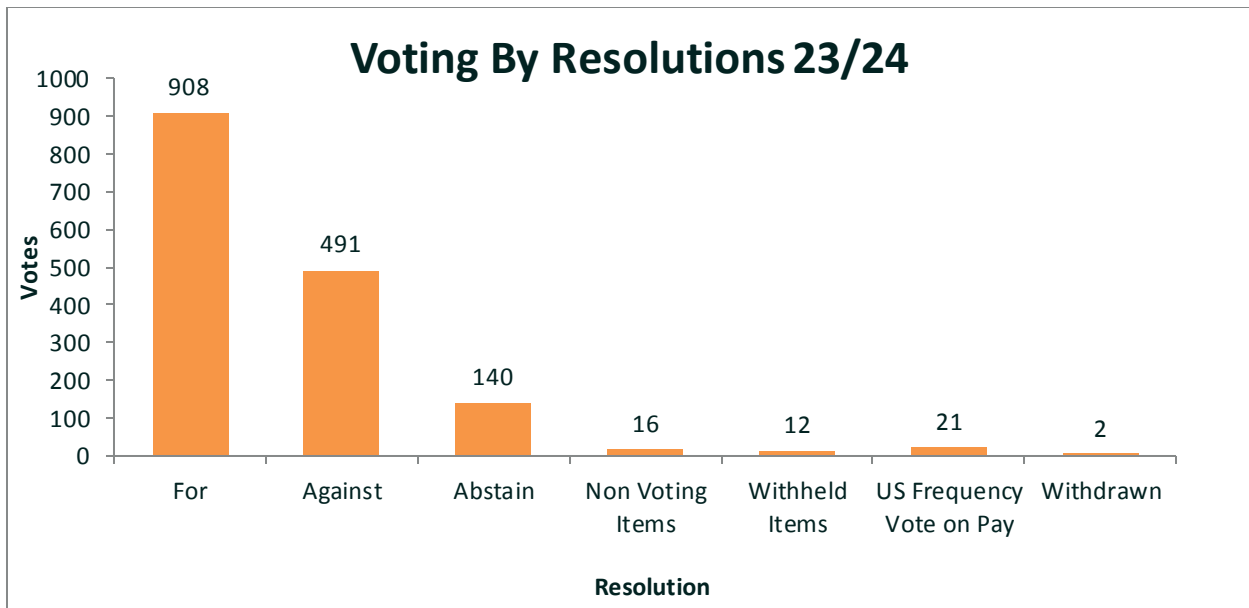
Voting

As an institutional shareholder we have a responsibility to make full use of our voting rights which enables the Fund to promote good governance practices in the companies in which we invest.

The Fund vote in house on all our active managers holdings and over the last year have voted at 106 Annual General Meetings/Special meetings on 1,554 resolutions. The Fund’s voting advice is provided by Pensions & Investments Research Consultants Ltd (PIRC). Additional advice is also received from the Local Authority Pension Fund Forum.

Further information on the Fund’s Voting record can be found on our website:
<https://www.nespf.org.uk/about/investment/responsible-investment/voting/>.





During the year to 31 March 2024, the main reasons for casting a vote against a resolution are listed below:

Directors

- Insufficient independent representation on the board.
- Global Diversity and Inclusion efforts of the company.
- Executives who are employees should not be additionally rewarded with bonuses or Long Term Incentive Plans (LTIPs) for duties that are considered part of the job.
- The Chair cannot effectively represent two corporate cultures.
- Company has not disclosed quantified targets for the performance criteria of its variable remuneration policy.

Share Issues/Repurchase

- No clear case as to how this would benefit long term shareholders.

Annual Reports

- Concerns over sustainability policies and practice.

Task Force on Climate Disclosures (TCFD)

North East Scotland Pension Fund recognise that Climate Change is a systemic risk and thus a material long-term financial risk, and thus support the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

TCFD provides a global framework to enable stakeholders to understand the financial system's exposure to climate-related risks particularly affecting organisations most likely to experience climate-related financial impacts from transition and physical risks.

North East Scotland Pension Fund is committed to reporting on its approach to climate risk within the TCFD framework which includes thematic areas of Governance, Strategy, Risk Management and Metrics and Targets. The Fund's first TCFD will be published in 2024/25.

13. Acknowledgement

The production of the Annual Report and Accounts is very much a team effort involving many staff as well as information supplied by our advisors. We would like to take this opportunity to acknowledge the considerable efforts of staff in the production of the 2023/24 Annual Report and Accounts.

Angela Scott
Chief Executive

Jonathan Belford, CPFA
Chief Officer – Finance

Councillor John Cooke
Pensions Committee Convener

On behalf of Aberdeen City Council.

13 September 2024

Statement of Responsibilities

The North East Scotland Pension Fund is governed by an Administering Authority, Aberdeen City Council, and is required to:

- Make arrangements for the proper administration of their financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs (Section 95 of the Local Government (Scotland) Act 1973). For the North East Scotland Pension Fund, that officer is the Chief Officer - Finance for Aberdeen City Council.
- Manage their affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and so far, as is compatible with the legislation, in accordance with proper accounting practices (Section 12 of the Local Government in Scotland Act 2003).
- Approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Pensions Committee at its meeting on 13 September 2024.

Signed on behalf of Aberdeen City Council.

Councillor John Cooke
Pensions Committee Convener

The Chief Officer - Finance responsibilities:

The Chief Officer - Finance is responsible for the preparation of the Pension Fund's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Accounting Code).

In preparing the Annual Accounts, the Chief Officer - Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation;
- complied with the Local Authority Accounting Code (in so far as it is compatible with legislation).

The Chief Officer - Finance has also:

- kept adequate accounting records which are up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Financial Position:

I certify that the Annual Accounts give a true and fair view of the financial position of the North East Scotland Pension Fund at the reporting date and the transactions of the Fund for the year ended 31 March 2024.

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
13 September 2024

Annual Governance Statement

Scope of Responsibility

Aberdeen City Council has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in the North East of Scotland.

As the Administering Authority for the Pension Fund, the Council is responsible for ensuring that its business, including that of the Pension Fund, is conducted in accordance with the law and proper standards, that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

In discharging this overall responsibility, the Aberdeen City Council Pensions Committee is responsible for putting in place proper arrangements for the governance of the Fund's affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk. In addition, the Fund also has its own dedicated Risk Management Policy which forms part of the Risk Management Framework along with the Risk Register.

The Council has approved and adopted a Local Code of Corporate Governance which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework: Delivering Good Governance in Local Government.

The Fund relies on Aberdeen City Council as Administering Authority to provide guidance on anticorruption, counter fraud and whistleblowing through their internal policies.

Purpose of the Governance Framework for North East Scotland Pension Fund

The governance framework comprises the systems, processes, culture and values by which the Administering Authority (including the Pension Fund) is directed and controlled. The Pension Fund complies with this framework ensuring that strategic objectives are monitored and to assess the effectiveness of services.

The North East Scotland Pension Fund is governed by the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation and production of several key policy documents including a Funding Strategy Statement and Statement of Investment Principles. These documents set out the Fund's objectives together with the main risks facing the Fund and the key controls in place to mitigate those risks.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure and can therefore only provide reasonable and not absolute assurance of effectiveness.

A governance framework has been in place at Aberdeen City Council and North East Scotland Pension Fund during 2023/24 and up to the date of approval of the Annual Report and Accounts.

The Governance Framework

The Fund relies upon the Council's internal financial controls for its financial systems and that monitoring is in place to ensure the effectiveness of those controls. Within the overall control arrangements, the system of internal control is intended to ensure that assets are safeguarded, transactions are authorised and properly recorded, and material errors or irregularities are either prevented or would be detected within a timely period.

To help provide a framework of control, the Council's governance framework includes standing orders, financial regulations, financial/administrative monitoring and procedures (including segregation of duties, management supervision and a system of delegation and accountability). In addition, the terms of reference for the Pensions Committee sets out its role and delegated functions.

The systems include:

- Managing receipt of contributions from employees and employers and payment of benefits to retired members of the Fund;
- Review of financial and performance reports against forecasts, benchmarks and targets set;
- The preparation of regular financial reports which include funding updates and actual expenditure against forecasts; and
- Consideration of External and Internal Audit reports by the Audit, Risk and Scrutiny Committee and by the Pensions Committee.

These arrangements also include:

- A training programme to ensure that Pensions Committee and Pension Board members develop the required level of knowledge and understanding of the LGPS;
- Identifying the objectives of the Fund in the Funding Strategy Statements, Statement of Investment Principles and Service Plan. Quarterly updates are presented to the Pensions Committee;
- Monitoring the achievement of objectives by the Pensions Committee and senior officers;
- A systematic approach to monitoring service performance by the Pensions Committee, senior officers and stakeholders including benchmarking of services;
- A clear statement of risk combined with effective risk management arrangements. A risk register is updated and regularly reported to the Pensions Committee;

- The Monitoring Officer reports on any non compliance with laws and regulations of which the Pensions Committee are made aware;
- Operating within clearly established investment guidelines defined by the Local Government Pension Scheme Investment Regulations and the Fund's Statement of Investment Principles;
- Compliance with the CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme and the Myners Principles on investment;
- Appropriate investment custody arrangements with a Global Custodian and access to the custodian's extensive internal control framework;
- Monitoring of appointed fund managers and third party providers ensuring compliance within their management agreements and receipt of assurances from them on the adequacy of the internal financial control systems operated by them.

The Public Service Pensions Act 2013 introduced new regulatory requirements including the introduction of a Pension Board. The Board assist the Administering Authority in delivering a regulatory compliant Scheme and was implemented from 1 April 2015. In addition, the Scheme now reports to The Pensions Regulator under the new governance arrangements. This provides additional assurances to all stakeholders that the Scheme has the appropriate internal and external governance framework in place.

From 1 April 2016, the Pension Fund has also implemented a new structure that identified six key areas; Investment, Accounting, Administration, Systems, Employer Relationship and Governance.

Teams are now in place to continue to deliver an efficient and effective service to all stakeholders while providing succession planning and clear and accountable roles.

Review of Effectiveness

The Pension Fund has responsibility for conducting, at least annually, a review of the effectiveness of their control environment including the system of internal control.

The Pension Fund approach this with reference to the Council and its approach. This considers different layers of assurance, namely management assurance both internally through the Council and the assurance and recommendations provided by Internal Audit; and External Audit and other external scrutiny reports.

Management Assurance

As the administration of the Pension Fund is directly within the remit of the Chief Officer - Finance, assurance was sought from him in relation to the effectiveness of internal financial controls. These assurances provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. For 2023/24, no significant areas of weakness were highlighted.

In reviewing this, it has been assessed that the Council's financial management arrangements conform to the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2016). Furthermore, in relation to statutory postholders, the effectiveness of the Council's arrangements can be evidenced through the relationship that they have had throughout the year with the Council and its officers, being full members of the Corporate Management Team. In addition, the Chief Officer - Finance and the Monitoring Officer are generally in attendance to advise not only the Council at its meetings, but the Audit, Risk and Scrutiny Committee and the Pensions Committee.

The Audit, Risk and Scrutiny Committee remains responsible for ensuring the effectiveness of the Internal Audit function and considering reports prepared by the External Auditor. Further to this, the Pensions Committee has oversight of the internal and External Audit functions in respect of the Pension Fund.

Assurance from Internal Audit

The Internal Audit function, for the Council and the Pension Fund, was under contract to Aberdeenshire Council during the financial year.

Towards the end of the year, Internal Audit conducted a review of the Pension Fund's Investment Strategy with the outcome reported to the March 2024 Pensions Committee. No major issues or risks were reported.

The Chief Internal Auditor's annual report concluded that in his opinion the NESPF had an effective framework for Governance, Risk Management and Control. The Full Internal Audit report is on the Fund's website: www.nespf.org.uk.

At the Pensions Committee meeting on 22 March 2024, the 2024-27 three year Internal Audit plan was approved. These audits will focus on:

- 2024/25: Pension Fund Payroll
- 2025/26: Key Administrative Processes
- 2026/27: Complaints Handling

External Audit and Other External Scrutiny

The External Auditor, Audit Scotland, reports to the Pensions Committee on the year end financial audit and issues national performance audit reports.

Governance Compliance Statement

The LGPS regulations require administering authorities to measure their governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non compliance in their Governance Compliance Statement. We consider our current governance structure to be fully compliant with the requirements of the CIPFA and SOLACE Principles A ii) and B i) as key stakeholders are represented on the Pension Board, which was established to underpin the work of

the Pensions Committee. In 2023/24, there were no significant issues to highlight on the Governance Compliance Statement.

A copy of the Governance Compliance Statement is on our website: www.nespf.org.uk/about/policies-and-statements/.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of systems of governance operated by Aberdeen City Council and the North East Scotland Pension Fund. The annual review demonstrates that the governance and internal control environment operated effectively during the 2023/24 financial year. On a quarterly basis, written updates regarding the Pension Fund's adherence to Investment Strategies and Performance are provided to the Pensions Committee.

Angela Scott
Chief Executive

Jonathan Belford, CPFA
Chief Officer – Finance

Councillor John Cooke
Pensions Committee Convener

On behalf of Aberdeen City Council

13 September 2024

Governance Compliance Statement

<u>Principle</u>	<u>Compliance</u>
1. Structure	
a) That employer representatives of participating LGPS employers, Admitted Bodies and Scheme members (including pensioner and deferred members) are members of either the main or secondary Committee established to underpin the work of the main Committee.	Fully compliant
b) The management of the administration of benefits and strategic management of fund assets clearly rests with the main Committee established by the appointing Council.	
c) That where a secondary Committee or panel has been established, the structure ensures effective communication across both levels.	
d) That where a secondary Committee or panel has been established, at least one seat on the main Committee is allocated for a member from the secondary Committee or panel.	
2. Committee Membership and Representation	
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary Committee structure. These include: <ul style="list-style-type: none"> i) employing authorities (including non Scheme employers, e.g. Admitted Bodies); ii) Scheme members (including deferred and pensioner Scheme members); iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad hoc basis). 	Fully compliant
b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	
3. Voting	
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Fully compliant

4. Training/Facility Time/Expenses	
a) That in relation to the way in which statutory and related decisions are taken by the Administering Authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	Fully compliant
b) That where such a policy exists, it applies equally to all members of committees, sub committees, advisory panels or any other form of secondary forum.	
c) That the Administering Authority considers the adoption of annual training plans for Committee members and maintains a log of all such training undertaken.	
5. Meetings (Frequency/Quorum)	
a) That an Administering Authority's main Committee or committees meet at least quarterly.	Fully compliant
b) That an Administering Authority's secondary Committee or panel meet at least twice a year and is synchronised with the dates when the main Committee sits.	
c) That an Administering Authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	
6. Access	
a) That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to Committee papers, documents and advice that falls to be considered at meetings of the Committee.	Fully compliant
7. Scope	
a) That Administering Authorities have taken steps to bring wider Scheme issues within the scope of their governance arrangements.	Fully compliant
8. Publicity	
a) That Administering Authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the Scheme is governed, can express an interest in wanting to be part of those arrangements.	Fully compliant

Full details on how the Fund remains compliant can be viewed in our Governance Compliance Statement available on our website:
www.nespf.org.uk/about/policies-and-statements/.

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Fund Account for the year ended 31 March 2024

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the LGPS. Included is the income generated from employers' and employees' contributions and investment income, as well as the cost of providing benefits and administration of the Fund.

	Notes	2022/23	2023/24
		£'000	£'000
Dealings with members, employers and others directly involved in the Fund			
Employees' Contributions	3	(37,056)	(39,651)
Employers' Contributions	3	(124,477)	(135,877)
Transfer Values	4a	(2,656)	(3,415)
Other Income		(3)	(3)
Additions		(164,192)	(178,946)
Employers' Surplus Refunds/Exit Payments	5	1,186	24,864
Retirement Pensions	6	140,887	157,148
Retirement Allowances	6	25,257	33,436
Death Gratuities	6	5,845	7,741
Contributions Refunded	7	583	499
Transfer Values	7	3,223	7,804
Withdrawals		176,981	231,492
Net (Additions)/Withdrawals from dealings with members		12,789	52,546
Management Expenses	8a	21,468	26,024
Net (Additions)/Withdrawals including Fund Management Expenses		34,257	78,570
Return on Investment			
Investment Income	9	(83,274)	(87,224)
Taxes on Income	9	552	530
Profits and Losses on Disposal of Investments and Changes in Market Value of Investments	10	425,554	(445,922)
Net Return on Investments		342,832	(532,616)
Transfer In of ACCTF at Market Value	4b	(290,035)	0
Revaluation of Insurance Buy In Contract	18c	35,062	20,924
Net (Increase)/Decrease in the Net Assets available for Benefits during the year		122,116	(433,122)
Opening Net Assets of the Fund		(5,925,893)	(5,803,777)
Closing Net Assets of the Fund		(5,803,777)	(6,236,899)

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS
Net Assets Statement as at 31 March 2024

This statement provides a breakdown of type and value of all Net Assets at the year end.

	Notes	2022/23	2023/24
		£'000	£'000
Investment Assets			
Bonds		46,218	0
Equities		2,161,917	2,431,401
Pooled Funds	11	2,230,604	2,516,109
Direct Property	15	367,200	381,000
Private Equity		480,612	500,286
Private Debt		155,026	129,789
Funds held by Investment Managers		74,044	137,659
ACC Loans Fund Deposit	21	145,610	41,150
Investment Income Due		2,024	2,543
Investment Sales Amount Receivable		161	16,520
Total Investment Assets		<u>5,663,416</u>	<u>6,156,457</u>
Investment Liabilities			
Investment Purchases Amount Payable		0	(27,072)
Net Investment Assets		<u>5,663,416</u>	<u>6,129,385</u>
Insurance Buy In Contract	20a	158,000	127,000
Life Time Tax Allowance	20a	189	174
Long Term Assets		<u>158,189</u>	<u>127,174</u>
Current Assets	20b	16,452	16,607
Current Liabilities	20c	(34,280)	(36,267)
Net Current Assets/(Liabilities)		<u>(17,828)</u>	<u>(19,660)</u>
Closing Net Assets of the Fund		<u>5,803,777</u>	<u>6,236,899</u>

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
13 September 2024

The unaudited accounts were authorised on 21 June 2024 and the audited accounts were authorised for issue by Jonathan Belford on 13 September 2024.

NOTES TO THE NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Note 1: Accounting Policies

The North East Scotland Pension Fund's Accounts have been prepared in accordance with the Code of Practice on Local Authority accounting in the UK (the Code).

The Annual Accounts summarise the Fund's transactions for the 2023/24 financial year and its position at year end as at 31 March 2024.

The Annual Accounts do not take account of the obligation to pay pensions and benefits which fall due after the end of the year.

The Fund's Annual Accounts are prepared on an accruals basis.

Contribution Income

Normal contributions, from both members and employers, are accounted for on an accruals basis. Employers' deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Scheme Actuary or on receipt (if earlier than the due date).

Employers' pension strain contributions are accounted for in the period in which the liability arises. Any amounts due in year but unpaid will be classed as a current financial asset.

Transfers to and from other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme (Scotland) Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Investment Income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend income is recognised on the date the shares are quoted ex dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

Property related income consists primarily of rental income. Rental income is demanded in accordance with the terms of the lease, generally being quarterly in advance.

The property portfolio accounts are prepared on an accruals basis.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account - Expenses

Benefits Payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

Taxation

The Fund is a registered public service Scheme under Section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Management Expenses

The Code does not require any breakdown of Pension Fund management expenses. However, in the interests of greater transparency, the Pension Fund discloses its management expenses in accordance with CIPFA guidance on Accounting for Local Government Pension Scheme Management Costs.

a.) Administrative Expenses and Oversight and Governance Costs

All administrative expenses and oversight and governance costs are accounted for on an accruals basis. All staff costs are charged direct to the Fund. Accommodation and other overheads are apportioned to the Fund in accordance with Aberdeen City Council's policy.

b.) Investment Management Expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition, the Fund has negotiated performance related fees with several of its investment managers. Performance related fees were £5,618,140 in 2023/24 (£4,586,458 2022/23).

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the Fund Account.

Financial Assets

Financial assets are included in the Net Assets Statement on a fair value basis at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

Valuation of Investments

All investments are valued at their market value at 31 March 2024 and are determined as follows:

All stocks within the FTSE 100 are valued based on the last traded price recorded on SETS (the Stock Exchange Electronic Trading Service), while all other listed securities are valued on the basis of the market conventions where primarily traded, which is either last traded or bid market price.

Investments held in foreign currency have been valued on the above basis and translated into sterling at the rate ruling at the balance sheet date.

Private equity/debt and infrastructure assets are independently valued by the appointed Fund Manager and General Partners. Fair value is calculated by applying Private Equity and Venture Capital Valuation Guidelines.

Unlisted investments are valued using one of the following methodologies:

- Multiple (based on comparable quoted multiples and significant third party transactions);
- Price of Recent Investment;
- Net Assets;
- Discounted Cash Flows or Earnings from Underlying Business.

When applying an Earning Multiple, the Fund Manager/General Partner will use the best estimate of maintainable earnings. In accordance with guidelines, discounts have been applied for size, quality of earnings, gearing and dependency on one customer where appropriate. A Marketability Discount will also have been applied to reflect liquidity.

Direct property investments are valued by an external valuer (Savills UK Ltd), in accordance with the Valuation Standards issued by The Royal Institute of Chartered Surveyors.

The valuer's opinion of Market Value was primarily derived using:

- Comparable recent market transactions on arm's length terms.

A full copy of the valuer's report including all general assumptions and definitions is available on request from the Executive Director of Corporate Services, Aberdeen City Council, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

Derivatives

Derivative contract assets are valued at bid price and liabilities are fair valued at offer price. Changes in the fair value of derivative contracts are included in the change in market value.

The value of future contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

Cash

Cash comprises of cash in hand and demand deposits.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Financial Liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the fund becomes party to the liability. From this date any gains or losses arising from the change in the fair value of the liability are recognised.

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits of the Fund is assessed on a quarterly basis by the Scheme Actuary and is in accordance with the requirements of International Accounting Standard 19 (IAS 19) and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 2) together with the full Statement by the Consulting Actuary is on Appendix 1.

Orphan liabilities are liabilities in the North East Scotland Pension Fund for which there is no sponsoring employer within the Fund. Ultimately, orphan liabilities must be underwritten by all other employers of the Fund.

Under the termination policy of the Fund, as set out by the Scheme Actuary, a termination assessment will be made on a least risk funding basis, unless the Admission Body has a guarantor within the Fund or a successor body exists to take over the liabilities. This is to protect the other employers in the Fund as, at termination, the Admitted Body's liabilities will become "Orphan Liabilities" within the Fund.

Additional Voluntary Contributions

North East Scotland Pension Fund provides an Additional Voluntary Contributions (AVC) Scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider together with Standard Life. AVCs are paid to the AVC provider by the employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year, from each service provider. AVCs are not included within the Annual Accounts however they are detailed in a Note to the Accounts.

Critical Judgements in applying Accounting Policies

Unquoted Private Equity/Debt and Infrastructure Investments

It is important to recognise the highly subjective nature of determining the fair value of unquoted private equity/debt and infrastructure investments. They are inherently based on forward looking estimates and judgements involving many factors. These investments are valued by the investment managers.

The valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of International Financial Reporting Standards (IFRS).

The value of unquoted investments at 31 March 2024 was £1,084,758,078 (31 March 2023 £925,701,847).

Actuarial Present Value of Promised Retirement Benefits

Each fund is required to disclose the estimated actuarial present value of promised retirement benefits as at the end of the financial year. These estimates are prepared by the Scheme Actuary. These values are calculated in line with IAS 19 assumptions and comply with requirements of IAS 26. However, the results are subject to significant variances based on changes to the underlying assumptions.

The figures are only prepared for the purposes of IAS 26 and have no validity in other circumstances. It is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

Insurance Buy In Contract

In 2020/21, a bulk annuity insurance buy in contract was purchased with Rothesay Life Plc. The insurer underwrites the risk of meeting the liabilities of a specified group of pensioners on the former Aberdeen City Council Transport Fund's pensions payroll as at the inception date 19 November 2020. The insurer will pay the cost of the monthly pension payments for this group as long as they or their dependants are entitled to a pension.

The Insurance Buy In Contract is included in the Net Assets Statement as an Asset and is valued at year end by the Scheme Actuary.

Events after the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Changes in Accounting Policies

Changes in accounting policies are only made when required by proper accounting practices or the changes provide more reliable or relevant information. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Accounting Standards That Have Been Issued but Not Yet Adopted

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code:

- **IFRS 16 Leases** - This standard replaces IAS 17 and removes the operating classification for leases, eliminating the ability for organisations to keep operating leases off balance sheet, by reporting them as a note to the accounts. With the new standard all leases will be considered finance leases unless they meet the

specific exception criteria. Implementation of this standard is from 1 April 2024. This amendment is not expected to have an impact on the Financial Statements.

- **Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)** - The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions. This amendment is not expected to have a significant impact on the Financial Statements.

- **Classification of Liabilities as Current or Non Current (Amendments to IAS 1)** - The amendments are:

Specify that an entity's right to defer settlement must exist at the end of the reporting period;

Clarify that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement;

Clarify how lending conditions affect classification; and

Clarify requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

This amendment is not expected to have a significant impact on the Financial Statements.

- **Non-current Liabilities with Covenants (Amendments to IAS 1)** - The amendments improved the information an entity provides when its right to defer settlement of a liability for at least 12 months is subject to compliance with covenants.

This amendment is not expected to have a significant impact on the Financial Statements.

- **International Tax Reform: Pillar Two Model Rules (Amendments to IAS 12)** - Pillar Two applies to multinational groups with a minimum level of turnover. The amendments are:

A temporary exception to the requirements to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes; and
Targeted disclosure requirements for affected entities.

These amendments are not likely to affect Pension Fund transactions.

- **Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)** - The amendments require an entity to provide additional disclosures about its supplier finance arrangements. The new requirements aim to provide users of financial statements with information that enables them to:
Assess how supplier finance arrangements affect an entity's liabilities and cash flows; and

Understand the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available.

This amendment is not expected to have a material impact on the Financial Statements.

Note 2: Actuarial Valuation Report

An Actuarial Report for the North East Scotland Pension Fund (NESPF) was provided as at 31 March 2023.

Information from the 2023 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£5,804,000,000
Liabilities	£4,614,000,000
Surplus	£1,190,000,000

Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities 126%

Achieving the Solvency Funding Target

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a solvency funding level of 100% of liabilities (**the solvency funding target**). In line with the FSS, the Fund has determined a contribution requirement for each employer taking into account the offset of any surplus held or the recovery of any deficit due. The average spread/recovery period adopted by the Fund is 13 years.

The valuation determined that the average employer cost of providing members benefits across the Fund was 20.2% (the Primary contribution rate.) By spreading the surplus over 13 years the Secondary contribution rate for the whole Fund is -6.2% meaning that the average employer contribution rate is 14.0% of pensionable pay.

In practice, each employer's position is assessed separately, details of which can be found in the 2023 Actuarial Valuation report. This sets out the contributions for each employer over the 3 year period to 31 March 2027.

Schedule to the Rates and Adjustments Certificate

The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the 3 year period to 31 March 2027. The rates have been determined in accordance with the FSS. Any adjustments made to the rates proposed by the Scheme Actuary were made as a result of the consultation carried out by the Fund and were made in line with the approaches agreed with the Scheme Actuary. Contribution requirements for the period from 1 April 2027 onwards will be revised as part

of the next actuarial valuation as at 31 March 2026 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions used to Calculate Funding Target

Discount Rate (Past Service)	4.60% p.a.
Discount Rate (Future Service)	4.10% p.a.
Assumed Long Term Price Inflation (CPI)	2.60% p.a.
Salary Increases – Long Term	4.10% p.a.
Pension Increases in Payment	2.60% p.a.

The 2023 Actuarial Report and the NESPF Funding Strategy Statement are available from the office of the Executive Director Corporate Services, Aberdeen City Council, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

Actuarial Statement

The Scheme Actuary has provided a statement describing the funding arrangements of the Fund.

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 26 (IAS 26) assumptions, is estimated to be £4,706m (2023 £4,598m).

The following factors that have had a key impact on the actuarial gains shown for the year to 31 March 2024:

- A change in financial assumptions including an increase in the discount rate and a slight increase in corporate bond yields has resulted in a small reduction in liabilities;
- The demographic assumptions have been changed to reflect the new data available from the Continuous Mortality Investigation (CMI_2022). This has had the effect of reducing the liabilities;
- Allowances for the impact of the 6.7% pension increase awarded in April 2024 have been made within the calculation. Additionally, CPI since September 2023 has been included. Since current inflation is higher than the long term inflation assumptions this has increased the value of the liabilities;
- Following the completion of the 2023 valuation the actual member experience from the previous valuation in 2020 has fed into the calculation.

These calculations are only prepared for the purposes of IAS 26 and have no validity in other circumstances. It is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

The full statement by the Scheme Actuary is in Appendix 1.

Note 3: Contributions Receivable

By Category	2022/23	2023/24
	£'000	£'000
Employees' Normal Contributions	37,056	39,651
Employers' Normal Contributions	121,677	132,815
Employers' Deficit Recovery Contributions	2,800	3,062
Total Employers' Contributions	124,477	135,877
Total	161,533	175,528

By Authority	2022/23	2023/24
	£'000	£'000
Administering Authority	42,834	47,980
Scheduled Bodies	102,012	111,570
Admitted Bodies	16,687	15,978
Total	161,533	175,528

Note 4a: Transfers In from other Pension Funds

	2022/23	2023/24
	£'000	£'000
Individual Transfers	2,656	3,415
Total	2,656	3,415

Note 4b: Analysis of Transfer Value from Aberdeen City Council Transport Fund

	2022/23	2023/24
	£'000	£'000
Net Investment Assets	85,414	0
Long Term Assets	202,216	0
Bank Accounts	3,230	0
Current Assets	87	0
Current Liabilities	(912)	0
Total	290,035	0

Note 5: Employers' Surplus Refunds/Exit Payments

	2022/23	2023/24
	£'000	£'000
Employers' Surplus Refunds/Exit Payments*	1,186	24,864
Total	1,186	24,864

*Two employers terminated their admission agreements with the Fund in each of the above years. Surplus refunds/exit payments were calculated by the Scheme Actuary.

Note 6: Benefits Payable

By Category	2022/23	2023/24
	£'000	£'000
Pensions	140,887	157,148
Commutation and Lump Sum Retirement Benefits	25,257	33,436
Lump Sum Death Benefits	5,845	7,741
Total	171,989	198,325

By Authority	2022/23	2023/24
	£'000	£'000
Administering Authority	45,710	50,137
Scheduled Bodies	102,687	112,004
Admitted Bodies	23,592	36,184
Total	171,989	198,325

Note 7: Payment to and on Account of Leavers

	2022/23	2023/24
	£'000	£'000
Refunds to Members Leaving Service	584	503
Payments for Members Joining State Scheme	(1)	(4)
Individual Transfers	3,223	7,804
Total	3,806	8,303

Note 8a: Management Expenses

	2022/23	2023/24
	£'000	£'000
Pension Fund Staffing Costs – Administration	1,595	1,787
Information Technology	474	556
Supplies & Services	161	192
Accommodation	714	560
Printing and Publications	14	18
Administration Expenses Total	2,958	3,113
Pension Fund Staffing Costs – Investment	232	262
Pension Fund Committee	2	2
Pension Board	3	4
External Audit Fee	45	51
Internal Audit Fee	11	12
Actuarial Fees	287	330
General Expenses	163	211
Oversight and Governance Expenses Total	743	872
Investment Management*	11,328	14,395
Performance Fees*	4,586	5,618
Direct Operating Property Expenses	793	761
Transaction Costs	921	1,095
Custody Fees	139	170
Investment Management Expenses Total	17,767	22,039
Management Expenses Grand Total	21,468	26,024

*In accordance with CIPFA guidance, the Fund treats those fees deducted from private equity/debt investments as Investment Management or Performance Fees. See the table below for a breakdown by asset class.

Quantifying these costs involves requesting the relevant fund managers for information, not all of which can be independently verified. Sometimes, fee estimates are required and there is a risk that the amount is incorrectly stated. However, as costs are offset by a corresponding adjustment to the change in market value of investments, any inaccuracy in the estimate will not change the Fund's net movement for the year.

Note 8b: Investment Management Expenses by Asset Class

2023/24	Management Fees	Performance Fees	Direct Property Expenses	Transaction Costs	Total
	£'000	£'000	£'000	£'000	£'000
Bonds	81				81
Equities	4,804	1,820		1,095	7,719
Pooled Funds	2,264	950			3,214
Property	1,077		761		1,838
Private Equity	3,525	1,767			5,292
Private Debt	2,644	1,081			3,725
Subtotal	14,395	5,618	761	1,095	21,869
				Custody Fees	170
				Grand Total	22,039

2022/23	Management Fees	Performance Fees	Direct Property Expenses	Transaction Costs	Total
	£'000	£'000	£'000	£'000	£'000
Bonds	75				75
Equities	4,335	2,034		837	7,206
Pooled Funds	451	1,188		84	1,723
Property	1,222		793		2,015
Private Equity	3,688	417			4,105
Private Debt	1,557	947			2,504
Subtotal	11,328	4,586	793	921	17,628
				Custody Fees	139
				Grand Total	17,767

Note 8c: Analysis of Transaction Costs

Commission £'000	Fees/ Tax £'000	2022/23 Total £'000	Asset Type	Commission £'000	Fees/ Tax £'000	2023/24 Total £'000
324	513	837	Equities	384	711	1,095
0	84	84	Pooled Funds	0	0	0
324	597	921	Total	384	711	1,095

Note 9: Investment Income

	2022/23	2023/24
	£'000	£'000
Bonds	257	186
Equity Dividends	19,978	24,544
Property Rental Income	18,862	20,333
Interest on Cash Deposit	4,790	8,911
Pooled Funds	21,894	20,704
Private Equity	3,645	585
Private Debt	10,139	12,206
Other (including P/L from Currency & Derivatives)	3,709	(245)
Total	83,274	87,224
Tax		
Withholding Tax – Equities	(552)	(530)
Total Tax	(552)	(530)
Net Total	82,722	86,694

Note 10: Investment Assets

Reconciliation of Movements in Investments and Derivatives:

	Market Value 31 March 2023	Purchases	Sales	Change in Market Value	Market Value 31 March 2024
	£'000	£'000	£'000	£'000	£'000
Bonds	46,218	0	(41,889)	(4,329)	0
Equities	2,161,917	824,687	(894,245)	339,042	2,431,401
Pooled Funds	2,230,604	169,479	(30,116)	146,142	2,516,109
Property	367,200	40,297	(12,012)	(14,485)	381,000
Private Equity	480,612	75,204	(38,532)	(16,998)	500,286
Private Debt	155,026	(7,581)	(14,206)	(3,450)	129,789
	5,441,577	1,102,086	(1,031,000)	445,922	5,958,585
Other					
Cash	219,654				178,809
Investment Income Due	2,024				2,543
Investment Sales Amount Receivable	161				16,520
Investment Purchases Amount Payable	0				(27,072)
Net Investment Assets	5,663,416				6,129,385

Reconciliation of Movements in Investment and Derivatives (continued):

	Market Value 31 March 2022	Purchases	Sales	Change in Market Value	Market Value 31 March 2023
	£'000	£'000	£'000	£'000	£'000
Bonds	0	63,010	(0)	(16,792)	46,218
Equities	2,319,608	641,102	(644,885)	(153,908)	2,161,917
Pooled Funds	2,347,495	197,477	(105,094)	(209,274)	2,230,604
Property	427,375	4,742	(3,211)	(61,706)	367,200
Private Equity	518,689	55,748	(106,805)	12,980	480,612
Private Debt	143,106	11,299	(2,525)	3,146	155,026
	5,756,273	973,378	(862,520)	(425,554)	5,441,577
Other					
Cash	196,372				219,654
Investment Income Due	2,264				2,024
Investment Sales Amount Receivable	7,155				161
Investment Purchases Amount Payable	(14,395)				0
Net Investment Assets	5,947,669				5,663,416

Note 11: Analysis of Investments

	2022/23	2023/24
	£'000	£'000
Bonds	46,218	0
Equities - UK	399,957	392,251
Equities - Overseas	1,761,960	2,039,150
Equities	2,161,917	2,431,401
Pooled Funds Breakdown:		
Bonds	855,510	840,348
Equities	965,698	1,125,612
Infrastructure - Unit Trust	119,333	95,466
Infrastructure - Limited Partnership	290,063	454,683
Pooled Funds	2,230,604	2,516,109
Direct Property	367,200	381,000
Private Equity	480,612	500,286
Private Debt	155,026	129,789
Other Investments	1,002,838	1,011,075
Funds held by Investment Managers	74,044	137,659
ACC Loans Fund Deposit	145,610	41,150
Investment Income Due	2,024	2,543
Investment Sales Amount Receivable	161	16,520
Other Balances	221,839	197,872
Investment Assets Total	5,663,416	6,156,457
Investment Liabilities		
Investment Purchases Amounts Payable	(0)	(27,072)
Investment Liabilities Total	(0)	(27,072)
Net Investment Assets	5,663,416	6,129,385

Note 12: Analysis of Derivatives

Futures

There were no outstanding exchange traded future contracts as at 31 March 2024.

Forward Foreign Currency

There were no outstanding forward foreign currency contracts as at 31 March 2024.

Note 13: Investments Analysed by Fund Manager

	31 March 2023		31 March 2024	
	£'000	%	£'000	%
Investment Assets				
State Street Global Advisors	1,326,129	22.9	1,468,479	23.5
Baillie Gifford	1,189,218	20.5	1,291,963	20.7
BlackRock Asset Management	1,009,413	17.4	1,161,225	18.6
BlackRock Renewable Power III	41,303	0.7	62,552	1.0
Abrdn (Property)	380,057	6.5	391,347	6.3
Abrdn (Property Residential)	29,525	0.5	28,123	0.5
HarbourVest	326,824	5.6	330,500	5.3
ACC Loans Fund Deposit	145,610	2.5	41,150	0.7
Global Custodian	26,416	0.5	97,404	1.5
Partners Group	47,314	0.8	35,815	0.6
Maven Capital	407	0.0	22	0.0
Unigestion	56,938	1.0	81,411	1.3
Russell Multi Asset Credit	105,705	1.8	116,939	1.9
Aviva Infrastructure	119,332	2.1	95,466	1.5
Hermes Infrastructure	96,176	1.7	82,651	1.3
Alcentra	70,757	1.2	62,133	1.0
Hayfin Direct Lending	84,269	1.5	67,656	1.1
Insight Credit	366,558	6.3	380,542	6.1
Allianz Home Equity	19,609	0.3	24,420	0.4
IFM Global Infrastructure	152,707	2.6	309,587	5.0
Schroders	69,149	1.2	0	0.0
	5,663,416	97.6	6,129,385	98.3
Net Long and Current Assets				
Bank Account	938	0.0	10	0.0
Long Term and Current Debtors Less Creditors	139,423	2.4	107,504	1.7
Net Assets	5,803,777	100.0	6,236,899	100.0

The following investments represent more than 5% of the Net Investment Assets:

Security	Market Value 31 March 2023	% of Net Investment Assets	Market Value 31 March 2024	% of Net Investment Assets
	£'000		£'000	
MPF International Equity Index Pooled Fund*	489,120	8.64	611,736	9.98
MPF UK Equity Pooled Fund*	476,578	8.42	513,875	8.38
Insight Investment Mgt Global Funds*	366,558	6.47	380,542	6.21
MPF UK Index Linked Gilts*	360,431	6.36	342,868	5.59
IFM Global Infrastructure	152,692	2.70	308,067	5.03
HarbourVest Tranche L	297,332	5.25	265,487	4.33

*The investments listed above are Pooled Investments, i.e. where two or more parties 'pool' or combine their investments. This type of investment allows the Fund to gain from economies of scale, i.e. lower transaction costs and diversification that can help reduce risk.

Note 14: Stock Lending

	31 March 2023	Collateral Percentage	31 March 2024	Collateral Percentage
	£'000		£'000	
Stock on Loan				
Equities	421,438		537,669	
Total Exposure	421,438		537,669	
Total Collateral	444,759	106%	573,243	107%

Stock Lending is the lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

Collateral is held at 107% in respect of each borrower, consisting of Government Debt, UK and Overseas Equities.

Note 15: Property Holdings

	2022/23	2023/24
	£'000	£'000
Opening Balance	427,375	367,200
Purchases	0	35,150
Construction	4,557	5,092
Subsequent Expenditure	185	55
Disposals	(3,211)	(12,012)
Net Increase/(Decrease) in Market Value	(61,706)	(14,485)
Closing Balance	367,200	381,000

The property holdings note shows those UK properties directly held by the Fund and as such the Fund is responsible for all the repairs, maintenance or enhancements. There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase, construct or develop any of these properties, as all are addressed within the Fund's Property Investment Strategy.

The valuation has been prepared against a backdrop where valuations have stabilised and there is a more promising outlook as we move into the rest of 2024. Therefore, the valuation is not reported as being subject to 'material valuation uncertainty' as defined in the RICS Valuation – Global Standards.

The future minimum lease payments receivable by the Fund are as follows:

	2022/23	2023/24
	£'000	£'000
Within One Year	17,846	19,304
Between One Year and Five Years	60,388	60,591
Later than Five Years	80,089	88,631
Total	158,323	168,526

In accordance with IAS 17, the above table has been presented using the 'break date' of the lease agreements.

Based upon the Fund's own historic experience but also on similar properties received from the Fund's property letting agents, the above disclosure for 2023-24 has seen no adjustment being required for a credit loss allowance.

Note 16: Financial and Non Financial Instruments

Accounting policies describe how different asset classes of financial and non financial instruments are measured. Also, how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value of financial assets and liabilities (excluding cash) by category and by Net Assets Statement heading. No financial assets were reclassified during the accounting period.

Non financial instruments have been added to the table for reconciliation to the Net Assets of the Fund.

31 March 2023				31 March 2024		
Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost		Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
46,218			Bonds	0		
2,161,917			Equities	2,431,401		
2,230,604			Pooled Funds	2,516,109		
480,612			Private Equity	500,286		
155,026			Private Debt	129,789		
	219,654		Cash		178,809	
	2,185		Other Investment Balances		19,063	
	174,641		Debtors		143,781	
5,074,377	396,480		Subtotal	5,577,585	341,653	
			Financial Liabilities			
		(0)	Other Investment Balances			(27,072)
		(34,280)	Creditors			(36,267)
		(34,280)				(63,339)
5,074,377	396,480	(34,280)	Financial Instruments Total	5,577,585	341,653	(63,339)
			Non Financial Instruments			
367,200			Property	381,000		
5,441,577	396,480	(34,280)		5,958,585	341,653	(63,339)
		5,803,777	Net Assets of the Fund			6,236,899

Note 17: Net Gains and Losses on Financial and Non Financial Instruments

31 March 2023		31 March 2024
£'000	Financial Assets	£'000
(363,848)	Fair Value through Profit and Loss	460,407
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
(363,848)	Net Gains and Losses on Financial Instruments	460,407
	Non Financial Instruments	
(61,706)	Fair Value through Profit and Loss	(14,485)
(425,554)	Net Gains and Losses of the Fund	445,922

Note 18: Valuation of Financial and Non Financial Instruments carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair value.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available. For example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use input that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted private equity/debt and infrastructure investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investments in unquoted private equity/debt and infrastructure are based on valuations provided by the general partners to the funds in which North East Scotland Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Non Financial instruments have been added to the table for reconciliation to the Net Assets of the Fund.

Note 18a: Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There have been no changes in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities Affecting the Valuations Provided
Market Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted Bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Forward Foreign Exchange Derivatives	Level 2	Market forward exchange rates at the year end	Exchange rate risk	Not required
Pooled Investments – Overseas Unit Trusts and Property Funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV based pricing set on a forward pricing basis	Not required
Freehold and Leasehold Properties	Level 3	Valued at fair value at the year end using the investment method of valuation by Valuers under the supervision of Tom Priest MRICS and Claire Magowan MRICS of Savills	Existing lease terms and rentals Independent market research Nature of Tendencies Covenant Strength for existing	

		in accordance with the <i>RICS Valuation Professional Standard</i>	tenants Assumed vacancy levels Estimated rental growth Discount rate	
Unquoted Equity/Debt & Infrastructure	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines (2018)</i>	Earnings Before Interest, Taxes, Depreciation, and Amortisation (EBITDA) multiple Revenue multiple Discount for lack of marketability Control Premium	Valuations could be affected by material events occurring between the date of the Financial Statements provided and the Pension Fund's own reporting date, by changes to expected cashflows and by any differences between audited Accounts

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2024	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	4,492,827		1,084,758	5,577,585
Non Financial Assets at Fair Value through Profit and Loss			381,000	381,000
Financial Liabilities at Fair Value through Profit and Loss	0			0
Net Investment Assets (Fair Value)	4,492,827	0	1,465,758	5,958,585

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2023	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	4,148,676		925,701	5,074,377
Non Financial Assets at Fair Value through Profit and Loss			367,200	367,200
Financial Liabilities at Fair Value through Profit and Loss	0			0
Net Investment Assets (Fair Value)	4,148,676	0	1,292,901	5,441,577

Note 18b: Transfers between Levels

There were no transfers between levels 1 and 2.

However, in 2023/24 £381m (£367m 2022/23) of Direct Property was transferred between levels 2 and 3, as a result of the basis of valuation used by the Fund's valuer.

Note 18c: Reconciliation of Fair Value Measurements within Level 3

	Market Value 31 March 2023	Purchases during the year & Derivatives Payments	Sales during the year & Derivative Receipts	Realised Gains & Losses	Unrealised Gains & Losses (a)	Market Value 31 March 2024
	£'000	£'000	£'000	£'000	£'000	£'000
Direct Property	367,200	40,297	(12,012)	(5,155)	(9,330)	381,000
Infrastructure – Limited Partnership	290,063	168,479	(3,929)	3,929	(3,859)	454,683
Private Equity	480,612	75,204	(38,532)	22,419	(39,417)	500,286
Private Debt	155,026	(7,581)	(14,206)	3,726	(7,176)	129,789
Total	1,292,901	276,399	(68,679)	24,919	(59,782)	1,465,758

(a) Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line with the Fund Account.

Bulk Annuity Insurance Buy In Contract

The transfer of assets from the ACCTF included a Bulk Annuity Insurance Buy In Contract with Rothesay Life Plc. The insurance cover provides that the insurer underwrites the risk for meeting the liabilities of a specified group of pensioners on the pensions payroll as at the inception date 19 November 2020. The insurer will pay the cost of the monthly pension payments for this group so long as they or their dependants are entitled to a pension.

The Insurance Buy In Contract is included in the Net Assets Statement as an Asset and is valued at year end by the Scheme Actuary.

	Total
	£'000
Transfer from ACCTF of Insurance Buy In on 1 April 2023	158,000
Level Pensions Paid by Insurer	(10,076)
Actuarial Revaluation	(20,924)
Closing Market Value as at 31 March 2024	127,000

Note 18d: Sensitivity of Assets Valued at Level 3

Having analysed historical data, current market trends and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2024.

	Assessed Valuation Range (+/-)	Value at 31 March 2024	Value on Increase	Value on Decrease
		£'000	£'000	£'000
Direct Property	13%	381,000	430,530	331,470
Infrastructure – Limited Partnership	26%	454,683	572,901	336,465
Private Equity	26%	500,286	630,360	370,212
Private Debt	26%	129,789	163,534	96,044
Total		1,465,758	1,797,325	1,134,191

The key underlying inputs for the Insurance Buy In Contract level 3 Valuation are the discount rate and life expectancy. The impact of the changes as calculated by the Scheme's Actuary is shown below:

		Valuation 31 March 2024	Valuation Increase	Valuation Decrease
Change in Assumptions	Adjustment	£m	£m	£m
Discount Rate Adjustment	(-/+) 0.5%	127	133	122
Life Expectancy Adjustment	(+/-) 1 Year	127	132	122

It is important to note that the above are sensitivities rather than being 'upper or lower bounds' on the value of the policy.

Furthermore, the value of the Insurance Buy In Contract matches the insured liability, so in practice any variation in the asset value would have no effect on the Net Fund position.

Note 19: Risk arising from Financial and Non Financial Instruments

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio.

The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk, ensuring there is liquidity to meet the Fund's forecast cash flows.

The Fund manages these investment risks as part of its overall Pension Fund Risk Management Strategy.

Responsibility for the Fund's Risk Management Strategy rests with the Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Fund. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market Risk

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's Risk Management Strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical location, industry sectors and individual securities.

Specific risk exposure is limited by applying risk weighted maximum exposures to individual investments.

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Adviser, the Fund has determined that the following movements in market price risk are possible for the 2023/24 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Bonds	7.5%
Overseas Bonds	7.5%
UK Equities	16.0%
Overseas Equities	20.5%
Pooled – Diversified Growth Fund	12.5%
Infrastructure - Other	13.0%
Infrastructure - Limited Partnership	26.0%
Private Equity	26.0%
Private Debt	26.0%
Property	13.0%
Cash	1.5%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the Investment Adviser's most recent review. This analysis assumes that all other variables, particularly foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund's investments increased/decreased in line with the above, the change in the Net Assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown overleaf).

Asset Type	Value as at 31 March 2024	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Bonds	342,867	7.5	368,582	317,152
Overseas Bonds	497,481	7.5	534,792	460,170
UK Equities	906,127	16.0	1,025,438	742,558
Overseas Equities	2,650,886	20.5	3,220,983	2,125,047
Infrastructure - Other	95,466	13.0	107,877	83,055
Infrastructure - Limited Partnership	454,683	26.0	572,901	336,465
Private Equity	500,286	26.0	630,360	370,212
Private Debt	129,789	26.0	163,534	96,044
Total	5,577,585		6,624,467	4,530,703

Asset Type	Value as at 31 March 2023	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Bonds	429,465	8.0	463,822	395,108
Overseas Bonds	472,263	8.0	510,044	434,482
UK Equities	876,535	16.3	1,019,410	733,660
Overseas Equities	2,251,080	20.5	2,712,551	1,789,609
Infrastructure - Other	119,333	13.0	134,846	103,820
Infrastructure - Limited Partnership	290,063	26.0	365,479	214,647
Private Equity	480,612	26.0	605,571	355,653
Private Debt	155,026	26.0	195,333	114,719
Total	5,074,377		6,007,056	4,141,698

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Fund in accordance with the Fund's Risk Management Strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2023 and 31 March 2024 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	As at 31 March 2023	As at 31 March 2024
	£'000	£'000
Cash and Cash Equivalents	219,654	178,809
Cash Balances	938	10
Bonds	901,728	840,348
Total	1,122,320	1,019,167

Interest Rate Risk Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the Net Assets available to pay benefits. A 100 Basis Point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's Risk Management Strategy. The Fund's long term average rates are expected to move less than 100 BPS from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, particularly exchange rates, remain constant and shows the effect in the year on the Net Assets available to pay benefits of a +/- 100 BPS change in interest rates:

Exposure to Interest Rate Risk	Asset Values as at 31 March 2024	Impact	
		+ 1%	- 1%
	£'000	£'000	£'000
Cash and Cash Equivalents	178,809	180,597	177,021
Cash Balances	10	10	10
Bonds	840,348	848,751	831,945
Total	1,019,167	1,029,358	1,008,976

Exposure to Interest Rate Risk	Asset Values as at 31 March 2023	Impact	
		+ 1%	- 1%
	£'000	£'000	£'000
Cash and Cash Equivalents	219,654	221,851	217,457
Cash Balances	938	947	929
Bonds	901,728	910,745	892,711
Total	1,122,320	1,133,543	1,111,097

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non monetary assets denominated in currencies other than £UK.

The Fund's currency rate risk is routinely monitored in accordance with the Fund's Risk Management Strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2024 and as at the previous year end:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2023	Asset Value as at 31 March 2024
	£'000	£'000
Overseas Quoted Securities	866,225	966,194
Overseas Unquoted Securities	627,402	640,063
Overseas Unit Trusts	961,383	1,109,217
Total Overseas Assets	2,455,010	2,715,474

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisers, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10.4%.

This analysis assumes that all other variables, particularly interest rates, remain constant.

A 10.4% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the Net Assets to pay benefits as shown below:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2024	Potential Market Movement	
		+10.4%	-10.4%
	£'000	£'000	£'000
Overseas Quoted Securities	966,194	1,066,678	865,710
Overseas Unquoted Securities	640,063	706,630	573,496
Overseas Unit Trust	1,109,217	1,224,576	993,858
Total	2,715,474	2,997,884	2,433,064

Assets Exposed to Currency Risk	Asset Value as at 31 March 2023	Potential Market Movement	
		+10.1%	-10.1%
	£'000	£'000	£'000
Overseas Quoted Securities	866,225	953,714	778,736
Overseas Unquoted Securities	627,402	690,770	564,034
Overseas Unit Trust	961,383	1,058,483	864,283
Total	2,455,010	2,702,967	2,207,053

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Local Government Pension Scheme Investment Regulations have limits as to the maximum percentage of the deposits placed with any one class of financial institution. Money market fund deposits are made through the Fund's Global Custodian and are evaluated according to their internal criteria.

Deposits made to the Aberdeen City Council (ACC) loans fund are administered within the City Council treasury policy.

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2024 was £178,819,000 (31 March 2023 was £220,592,000). This was held with the following institutions as shown below:

Summary	Rating	Balance as at 31 March 2023 £'000	Balance as at 31 March 2024 £'000
Liquidity Funds			
HSBC Liquidity Funds	AA-	56,247	115,566
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	145,610	41,150
HSBC	AA-	17,797	22,093
Subtotal		219,654	178,809
Bank Current Accounts			
HSBC Bank	AA-	927	0
Virgin Money*	A-	11	10
		938	10
Total		220,592	178,819

*Clydesdale Bank trading as Virgin Money.

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund ensures that it has adequate cash resources to meet its commitments. The Fund has immediate access to its cash holdings.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2024 the value of illiquid assets was £1,465,758,078 which represented 23.5% of the Total Net Assets of the Fund (31 March 2023 £1,292,901,847 which represented 22.3% of the Total Net Assets of the Fund).

Note 20a: Long Term Assets

	31 March 2023	31 March 2024
	£'000	£'000
Insurance Buy In Contract	158,000	127,000
Life Time Tax Allowance	189	174
Total Long Term Assets	158,189	127,174

Note 20b: Current Assets

	31 March 2023	31 March 2024
	£'000	£'000
Employees' Contributions due	3,023	3,215
Employers' Contributions due	8,853	9,526
Sundry Debtors	3,638	3,856
Subtotal	15,514	16,597
Bank	938	10
Total Current Assets	16,452	16,607

Note 20c: Current Liabilities

	31 March 2023	31 March 2024
	£'000	£'000
Sundry Creditors	24,862	28,154
Benefits Payable	9,418	8,113
Total Current Liabilities	34,280	36,267

Note 21: Related Party Transactions

Both the UK and Scottish Governments have a significant influence over the general operations of the Fund. They are responsible for providing the statutory framework within which the Fund operates and prescribes the terms of benefit payments to the Fund's membership. Members' benefit payments are shown in Notes 6 and 7.

The Fund's related party transactions with the Administering Authority, i.e. Aberdeen City Council, are:

	31 March 2023	31 March 2024
	£'000	£'000
Income:		
Contributions Receivable	39,964	43,031
Loans Fund Interest	1,767	5,234
Excess Pensions	2,355	2,522
Strain on Fund	515	2,426
Expenditure:		
Central Support Services	2,045	2,267
Accommodation – 2 Marischal Square	393	387
Debtors:		
Contributions Due	3,430	3,576
Excess Pensions Due	325	347
Creditors:		
Central Support Services Payable	571	635
Cash Balances:		
ACC Loans Fund Deposit	145,610	41,150

Audit Scotland are the appointed External Auditors of the Fund and Aberdeen City Council. They attend the Pensions Committee and Pension Board meetings. Their fee is disclosed in Note 8a.

Note 22: Key Management Personnel

Certain employees of Aberdeen City Council hold key positions in the financial management of the North East Scotland Pension Fund. Two employees were identified and their financial relationship with the Fund (expressed as an accrued pension) is set out below:

		Accrued Pension 2022/23	Accrued Pension 2023/24
		£'000	£'000
Steven Whyte	Director of Resources	52	56
Jonathan Belford	Chief Officer - Finance	45	49

Steven Whyte retired from his position on 31/03/2024.

Governance

As at 31 March 2024, 7 members of the Pensions Committee and 8 members of the Pension Board were active members or pensioners of the North East Scotland Pension Fund.

Each member of the Pensions Committee and Pension Board is required to declare any financial and non financial interest they have in the items of business for consideration at each meeting, identifying the relevant agenda items and the nature of their interest.

Conflicts of Interest are managed in accordance with the Conflicts of Interest Policy or Codes of Conduct for Councillors or Employees. A list of Declared Interests are disclosed in Appendix 3.

The Fund's related party transactions with those declared interests are:

2023/24	Income		Debtors
	Contributions Receivable	Excess Pensions	Contributions Due
	£'000	£'000	£'000
Grampian Valuation Joint Board	686	23	55
Robert Gordon University	7,533	57	619

2022/23	Income		Debtors
	Contributions Receivable	Excess Pensions	Contributions Due
	£'000	£'000	£'000
Grampian Valuation Joint Board	647	23	57
Robert Gordon University	6,878	57	640

For the above related parties there were no expenditure transactions and no outstanding creditor balances for both years.

Note 23: Contractual Commitments as at 31 March 2024

As at 31 March 2024 the NESPF had contractual commitment in respect of Private Equity/Debt and Global Real Estate portfolios. The undrawn commitments are outstanding call payments £430.249m (£589.846m 31 March 2023):

	Contractual Commitments	Undrawn Commitments
	£'000	£'000
HarbourVest	607,367	276,975
Partners Group	86,348	19,235
Maven (SLF)	6,308	22
Unigestion	141,065	67,865
AAM Residential Property	30,000	1,249
Hermes Infrastructure	100,000	9,448
Alcentra EDL	85,494	15,398
Hayfin DLF	85,494	15,317
Blackrock Renewable	79,161	24,740
Allianz Home Equity	25,000	0
IFM Global Infrastructure	300,000	0
Total	1,546,237	430,249

Note 24: Additional Voluntary Contributions (AVC)

Additional Voluntary Contributions are not included in the Pension Fund's Accounts.

Members of the North East Scotland Pension Fund are included in the following tables.

The amount of Additional Voluntary Contributions paid by members during the year is shown as income in the table below:

2022/23	Income (AVCs Paid by Members)	2023/24
£'000		£'000
7	Standard Life	9
3,395	Prudential	4,465

The closing Net Assets values represent the value of the separately invested Additional Voluntary Contributions. These closing values are subject to revaluation.

Market Value	Additional Voluntary Contributions	Market Value
31 March 2023		31 March 2024
£'000		£'000
1,043	Standard Life	983
25,841	Prudential	27,254

Note 25: Contingent Assets/Liabilities

The North East Scotland Pension Fund currently holds one cash bond in respect of the participating employers within the fund. The bond guards against the possibility of being unable to recover pension liabilities from this Admission Body should they terminate their participation of the Scheme. A high level review of the bond requirements for the participating employers within the Fund was undertaken by the Scheme Actuary in 2024 following the completion of the triennial valuation to determine if any bonds needed to be put into place for the protection of the Scheme guarantors and the other participating employers as a whole. As a result of the bond review and the positive funding position it was determined that no amendments needed to be made at this time.

The pension liabilities for all Transferee Admission Bodies are guaranteed by the originating employer as per Regulation 61(5)(a) of the Local Government Pension Scheme (Scotland) Regulations 2018. In total, the Fund has secured guarantees for 20 Admission Bodies currently participating in the Scheme.

NESPF was the lead plaintiff in the Under Armour Class Action. The Class Action was regarding potential securities fraud. A settlement of \$434m has been reached, which is subject to definitive documentation and final court approval.

Note 26: Impairment for Bad and Doubtful Debts

The risk of employers being unable to meet their pension obligations is managed through the NESPF Termination Policy and the NESPF Employer Covenant Assessment Policy which are embedded within the Funding Strategy Statement. During 2023/24 three admission bodies exited from the Fund. Two of those were a managed exit and one where the employer went into administration. Following these termination events, the assets and liabilities for each employer were assessed by the Scheme Actuary. The Actuary's assessment is to determine the funding level and the deficit or surplus held in accordance with the regulations. The Fund paid exit credits to two of the exiting employers as a surplus was identified upon exit. The liabilities for the third employer was subsumed by the guarantor as at the exit date. Termination certificates, signed by the Scheme Actuary, were issued to the employers to confirm that the liabilities had been discharged.

Note 27: Investment Principles

A summary of the Statement of Investment Principles is available on our website: www.nespf.org.uk. A full version of the Statement of Investment Principles is available on request from Executive Director of Corporate Services, Aberdeen City Council, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

The Statement of Investment Principles is reviewed on an annual basis by the Pensions Committee and following any change to the investment strategies of the Pension Fund.

Note 28: Critical Judgements in applying Accounting Policies

Assumptions made about the future and other major sources of estimation uncertainty.

The items in the Net Assets Statement as at 31 March 2024 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumption
Actuarial Present Value of Promised Retirement Benefits.	Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in Note 2.
Direct Property Private Equity Private Debt & Pooled Infrastructure (Unquoted)	Private equity/debt and unquoted pooled infrastructure investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Direct Property £381m. Private equity £500m. Private Debt £130m. Pooled Infrastructure (Unquoted) £455m. There is a risk that these investments may be under or overstated in the accounts.
Insurance Buy In Contract	The Insurance Buy In Contract is included in the Net Assets Statement as an Asset and is valued at year end by the Scheme Actuary. The insurer underwrites the risk of meeting the liabilities of a group of pensioners within the Fund. Key assumptions are the Discount Rate and Life Expectancy.	Further information can be found in Note 18d Sensitivity Analysis.

Note 29: Events after the Balance Sheet Date

The Unaudited Statement of Accounts was authorised for issue by the Chief Officer – Finance on 21 June 2024. Events taking place after this date are not reflected in the Annual Accounts or Notes. Where events taking place before this date provided information about conditions existing at 31 March 2024, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

Note 30: Agency Arrangement for Administering Compensatory ‘Added’ Years

The North East Scotland Pension Fund administers compensatory ‘added’ years payments for those awarded up to 2011. The Fund acts as an agent of employing bodies, in respect of staff that have had their pension augmented under The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998.

The cash flows in respect of the relevant employing bodies and associated payroll cost for those compensatory ‘added’ years payments are:

	2022/23	2023/24
	£'000	£'000
Cost incurred/(recovered) on behalf of:		
Aberdeen City Council	2,355	2,522
Aberdeenshire Council	1,358	1,442
Moray Council	698	730
Scottish Water	1,297	1,390
Other	280	297
Total	5,988	6,381

	2022/23	2023/24
	£	£
Associated Payroll Cost	4	4

Independent Auditor's Report

Independent auditor's report to the members of Aberdeen City Council as administering authority for North East Scotland Pension Fund and the Accounts Commission

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of North East Scotland Pension Fund (the fund) for the year ended 31 March 2024 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the 2023/24 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the financial transactions of the fund during the year ended 31 March 2024 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 3 April 2023. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council as administering authority for the fund. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the fund's current or future financial sustainability. However, I report on the fund's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Chief Officer - Finance and the Pensions Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Officer – Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Officer – Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Officer - Finance is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the fund's operations.

The Pensions Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to

detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations 2018 as amended are significant in the context of the fund;
- inquiring of the Chief Officer - Finance and the Interim Chief Officer - Governance as to other laws or regulations that may be expected to have a fundamental effect on the operations of the fund;
- inquiring of the Chief Officer - Finance and the Interim Chief Officer - Governance concerning the fund's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the fund's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Reporting on other requirements

Other information

The Chief Officer – Finance is responsible for the other information in the annual report. The other information comprises the Management Commentary, Annual Governance Statement, Governance Compliance Statement, Statement of Responsibilities and other reports included in the annual report other than the financial statements and my auditor's report thereon.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Management Commentary, Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016): and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual report, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Michael Oliphant FCPFA
Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

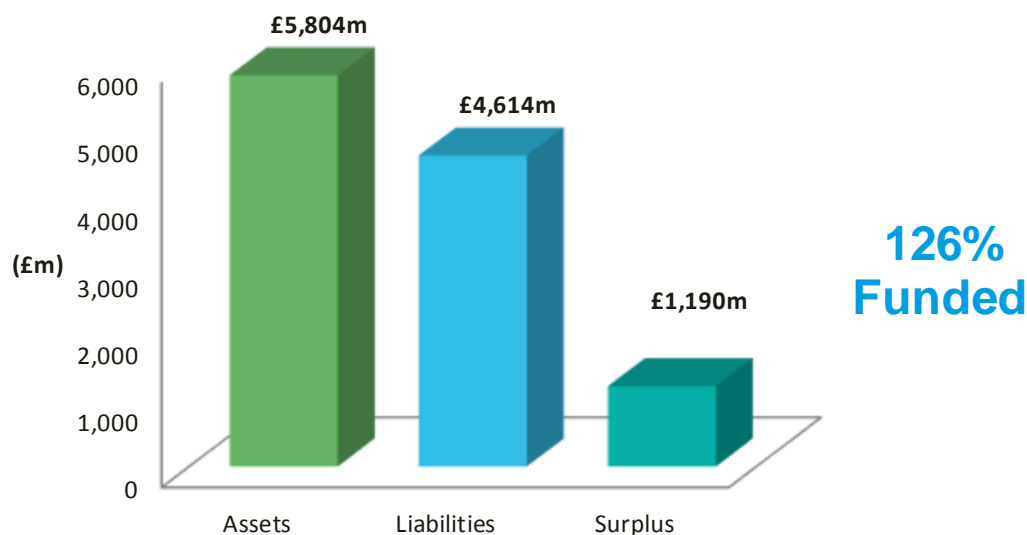
13 September 2024

Appendix 1 – Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 55(1)(d) of The Local Government Pension Scheme (Scotland) Regulations 2018.

North East Scotland Pension Fund

An actuarial valuation of the North East Scotland Pension Fund was carried out as at 31 March 2023 to determine the contribution rates with effect from 1 April 2024 to 31 March 2027.



On the basis of the assumptions adopted, the Fund’s assets of £5,804 million represented 126% of the Fund’s past service liabilities of £4,614 million (the “Solvency Funding Target”) at the valuation date. The surplus at the valuation was therefore £1,190 million.

This position allows for the merger of the Aberdeen City Council Transport Fund into the North East Scotland Pension Fund on 1 April 2022. In particular, the figures include the bulk annuity insurance buy in contract with Rothesay Life Plc in respect of a specified group of pensioners. For the purpose of the actuarial valuation the 31 March 2023 liabilities relating to the insured pensioner members have been assessed on the Fund’s ongoing valuation basis and the assets have been taken from the audited Fund accounts.

The valuation also showed that a Primary contribution rate of 20.2% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the weighted average recovery period adopted is 13 years, and the total initial recovery payment (the “Secondary rate” for 2024/27) is a surplus offset of approximately 6.2% per annum in % terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS).

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2024.

In practice, each individual employer’s position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the FSS. Any different approaches adopted, e.g. with regard to surplus offset periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.6% per annum	4.1% per annum
Rate of pay increases (long term)	4.1% per annum	4.1% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.6% per annum	2.6% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2026. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2027.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2024 (the 31 March 2023 assumptions are included for comparison):

	31 March 2023	31 March 2024
Rate of return on investments (discount rate)	4.8% per annum	4.9% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.7% per annum	2.7% per annum
Rate of pay increases	4.2% per annum*	4.2% per annum
Increases on pensions (in excess of GMP)/Deferred revaluation	2.8% per annum	2.8% per annum

* the 31 March 2023 assumption includes a corresponding allowance to that made at the 2020 actuarial valuation for short term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes:

- the start of period assumptions are based on the 2020 actuarial valuation assumptions, updated to reflect the initial demographic study carried out as preparation for the 2023 actuarial valuation, CMI_2021 with a long term rate of life expectancy improvement of 1.5% p.a.
- the end of period assumptions are based on the final demographic assumptions adopted for the 2023 actuarial valuation, updated to CMI_2022 with a long term rate of life expectancy improvement of 1.5% p.a.

Full details of the demographic assumptions are set out in the formal report on the actuarial valuation dated March 2024.

The movement in the value of the Fund's promised retirement benefits for IAS 26 is as follows:

Start of period liabilities	£4,598m
Interest on liabilities	£217m
Net benefits accrued/paid over the period*	(£44m)
Actuarial (gains)/losses (see below)	(£65m)
End of period liabilities	£4,706m

**This includes any increase in liabilities arising as a result of early retirements*

Key factors leading to actuarial gains above are:

- **Change in financial assumptions:** Corporate bond yields increased slightly over the year, with a corresponding increase in discount rate from 4.8% p.a. to 4.9% p.a. The long term assumed CPI is the same at the end of year as it was at the start of year. In combination, these factors lead to a small reduction in liabilities.
- **Change in demographic assumptions:** As noted above, the assumptions have been updated to reflect the new CMI model available. This acts to reduce the liabilities.
- **Pension increases / recent high short-term inflation:** The figures allow for the impact of the April 2024 pension increase of 6.7%, to the extent it wasn't allowed for in the 2023 statement, along with known CPI since September 2023 (which will feed into the 2025 pension increase). As current inflation is higher than the long term assumption, this increases the liabilities.
- **2023 actuarial valuation:** The year end liabilities allow for the final 2023 valuation results, and so will allow for the difference between the assumptions and actual member experience over 2020/23. This will include factors such as the impact of actual pay increases awarded, actual rates of ill health retirement, etc.

Paul Middleman
Fellow of the Institute and
Faculty of Actuaries

Mark Wilson
Fellow of the Institute and
Faculty of Actuaries

Mercer Limited
May 2024

APPENDIX 1a – ADDITIONAL CONSIDERATIONS

The “McCloud judgment”: The figures above allow for the impact of the judgment **based** on the proposed remedy.

GMP indexation: The above figures allow for the provision of full CPI pension increases on GMP benefits for members who reach State Pension Age after 6 April 2016.

Covid 19/Ukraine/Gaza conflict: The financial assumptions allow for these factors to the degree that they are reflected in the market values on which the assumptions are based. The impact of COVID deaths over the period 2020 to 2023 will be included in the actuarial gains / losses item above. The mortality assumption includes no specific adjustment for COVID as our view is that it is not possible at this point to draw any meaningful conclusions on the long term impact.

High inflation over last two years The period end figures above allow for the impact of actual known CPI at the accounting date as noted above. The period end assumptions then allow for expected (market implied) CPI from that point.

Appendix 2 – Schedule of Employers

North East Scotland Pension Fund

	Employers as at 31 March 2023	New Admissions	Ceased	Employers as at 31 March 2024
Scheduled Bodies	10	0	0	10
Admission Bodies	34	0	(3)	31
Total	44	0	(3)	41

Ceased during 2023/24

- | | |
|-----------------------------|----------|
| 1. Aberdeen Cyrenians | Admitted |
| 2. First Aberdeen | Admitted |
| 3. St Machar Parent Project | Admitted |

Participating Employers as at 31 March 2024

- | | |
|--|-----------|
| 1. Aberdeen City Council | Scheduled |
| 2. Aberdeenshire Council | Scheduled |
| 3. Grampian Valuation Joint Board | Scheduled |
| 4. Moray College | Scheduled |
| 5. Moray Council | Scheduled |
| 6. NESTRANS | Scheduled |
| 7. North East Scotland College | Scheduled |
| 8. Scottish Fire and Rescue Service | Scheduled |
| 9. Scottish Police Authority | Scheduled |
| 10. Scottish Water | Scheduled |
| 11. Aberdeen Endowments Trust | Admitted |
| 12. Aberdeen Foyer | Admitted |
| 13. Aberdeen Heat & Power Ltd | Admitted |
| 14. Aberdeen Performing Arts | Admitted |
| 15. Aberdeen Sports Village | Admitted |
| 16. Alcohol and Drugs Action | Admitted |
| 17. Bon Accord Care Ltd | Admitted |
| 18. Bon Accord Support Services Ltd | Admitted |
| 19. Community Integrated Care (Inspire Legacy Staff) | Admitted |
| 20. Fersands and Fountain Community Project | Admitted |
| 21. Forth and Oban Ltd | Admitted |
| 22. Fraserburgh Harbour Commissioners | Admitted |

23.HomeStart Aberdeen	Admitted
24.HomeStart NEA	Admitted
25.Idverde UK	Admitted
26.Mental Health Aberdeen	Admitted
27.North East Sensory Services	Admitted
28.Outdoor Access Trust for Scotland	Admitted
29.Pathways	Admitted
30.Peterhead Port Authority	Admitted
31.Printfield Community Project	Admitted
32.Robert Gordon's College	Admitted
33.Robert Gordon University	Admitted
34.Robertsons Facilities Management (City)	Admitted
35.Robertsons Facilities Management (Shire)	Admitted
36.Sanctuary Scotland Housing Association Ltd	Admitted
37.SCARF	Admitted
38.Scottish Lighthouse Museum	Admitted
39.Sport Aberdeen	Admitted
40.Station House Media Unit	Admitted
41.Xerox (UK) Ltd	Admitted

Appendix 3 – Declared Interests

In 2023/24 Members/Key Management Personnel had disclosed an interest that is included within the following list:

Aberdeen Bulawayo Trust
Aberdeen City Heritage Trust
Aberdeen Civil Service Curling Club
Aberdeen Community Health Care Village Limited
Aberdeen Endowments Trust
Aberdeen Football Club
Aberdeen Gomel Trust
Aberdeen International Airport Consultative Committee
Aberdeen Lads Club
Aberdeen Outdoor Access Forum
AGHOCO 2175 Limited
Asco Group Ltd
Association of Public Service Excellence
BAE Systems
Bonsell Accounting Services
Carbon Reduction Analysts Ltd
Care and Repair Initiative Scotland
Champions Board
Clydesdale Bank
Convention of Scottish Local Authorities (COSLA) Health and Social Care Board
Cruden Bay Golf Club
Etiom Ltd
Fersands Area Forum
First Group Plc
Friends of the Gordon Highlander Museum
GMB Union
Grampian Houston Association
Grampian Racial Equality Council (GREC)
Grampian Valuation Joint Board
Granite City Speakers Club
Historic Scotland
Hub North Scotland Limited
Hub North Scotland (Alford) Limited
Hub North Scotland (FWT) Limited
Institute of Chartered Accountants Scotland (ICAS)
Integration Joint Board
Kellas Midstream Ltd
Lloyds Banking Group

Longhaven District Hall Association
Longhaven Social Club
Mennico Ltd
Modern Money Scotland
North East Agricultural Advisory Committee
North East Scotland Fisheries Development
Printfield Community Project
Punk Anatomist and Scotonomics
Robert Gordon University
Royal National Lifeboat Institution (RNLI)
Rubislaw Field Committee
Saga
Santander
Scotch Malt Whisky Society
Scottish Ambulance Service
Scottish & Southern Electricity (SSE) Plc
Sport Aberdeen
The Gordon Highlanders Advisory Group
The Vestry
UNISON (Public Service Union)
UNITE the Union
University of the Highlands & Islands (UHI) Foundation
Virgin Money
Woodside Neighbourhood Community Planning and Regeneration Network

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	13 September 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Strategy
REPORT NUMBER	PC/SEPT24/STRAT
EXECUTIVE DIRECTOR	ANDY MACDONALD
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	LAURA COLLISS & MAIRI SUTTIE
TERMS OF REFERENCE	1.4, 3.1, 4-5

1. PURPOSE OF REPORT

- 1.1 To inform the Committee and provide recommendations (if applicable) to changes to the North East Scotland Pension Fund.

2. RECOMMENDATIONS

That the Committee:-

- 2.1 Approve the updates to the Fund policy documents as set out in 6.2 of the main report; and
- 2.2 Note the remainder of the report for reassurance.

3. CURRENT SITUATION

- 3.1 See attached main report.

4. FINANCIAL IMPLICATIONS

- 4.1 The performance of the Fund over the long term can impact on the Fund's funding level and therefore the ability to meet its long-term liabilities.

5. LEGAL IMPLICATIONS

- 5.1 There are a number of legal implications arising from the implementation of the strategy which have been identified and addressed as set out in this report.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

7.1 The Pension Fund maintains its own Risk Management Policy and regularly updates its Risk Register in line with change. This is reported quarterly to the Pensions Committee.

Appendix I, Copy of Risk Register (August 2024)

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) <i>*taking into account controls/control actions</i>	*Does Target Risk Level Match Appetite Set?
Strategic Risk	Lack of effective risk controls in relation to the Fund Strategy.	The Fund maintains its own Risk Management Policy and regularly updates its Risk Register in line with change. This is reported quarterly to the Pensions Committee.	L	Yes
Compliance	No significant risks identified.	N/A	N/A	N/A
Operational	No significant risks identified.	N/A	N/A	N/A
Financial	No significant risks identified.	N/A	N/A	N/A
Reputational	No significant risks identified.	N/A	N/A	N/A
Environment / Climate	No significant risks identified.	N/A	N/A	N/A

8. OUTCOMES

8.1 The proposals in this report have no impact on the Council Delivery Plan.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	No assessment required. I can confirm this has been discussed and agreed with Jonathan Belford, Chief Officer-Finance on 10 th June 2024.
Data Protection Impact Assessment	Not required
Other	N/A

10. BACKGROUND PAPERS

10.1 None

11. APPENDICES

11.1 Appendix I Copy of Risk Register (August 2024)
Appendix II, PAS Report
Appendix III, Policy Document
Appendix IV, Pension Board Annual Report 2023/24

12. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

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Strategy Report

Quarterly Reporting September 2024

1. Background

1.1 Quarterly Report to September 2024

The Pensions Committee will be comprehensively informed via this report as to the current position and any variances to the Funds strategy and recommendations.

In line with the structural review of the Pension Fund, six specific areas were identified to fully address the strategic management of the Fund;

- Investment
- Accounting
- Benefit Administration
- Systems
- Governance
- Employer Relations

The roles and responsibilities within these areas have been very clearly defined to ensure accountability across the Pension Fund.

To support this, support services updates covering the six strategic areas will also be available via [the secure website at http://www.nespf.org.uk/TheFund/Governance/fundgovernance.aspx](http://www.nespf.org.uk/TheFund/Governance/fundgovernance.aspx).

Also available on the Pension Fund website are all the policy documents that govern the Pension Fund including its various strategies.

2. Investment

2.1 Asset & Investment Manager Performance Report Investment Strategy Report

Separate reports, provided

2.2 Local Authority Pension Fund Forum (LAPFF)

Copies of the latest e-bulletins, quarterly engagement and annual reports are available at <http://www.lapfforum.org>.

3. Accounting

3.1 Aberdeen City Council Pension Fund (known as the North East Scotland Pension Fund) Audited Annual Report & Accounts

Separate report, provided

4. Benefit Administration

4.1 Pension Fund Annual Benefit Statements

The North East Scotland Pension Fund has a statutory requirement to issue all active and deferred members with annual benefit statement information by 31st August each year.

In line with our continual progression towards improved digital communication, both active and deferred statements were, once again, issued online in 2023/24. 2023 saw the launch of the new Member Self Service (My Pension+) platform for members, an upgrade on the previous version and a large undertaking for NESPF staff.

Statements are no longer posted out to members unless they contact the Fund and “opt in” to continue to receive them in paper form. To meet disclosure requirements, letters are sent out to members to provide “activation keys” where a member is not already registered with My Pension+. Registered members receive an email notification advising them that their annual statement is available to view online.

This year, Deferred Benefit Statements were issued via My Pension+ and accessed on the new Annual Benefit Statement page, which included a personalised AI video explaining their benefits. Letters were issued to those not yet registered on My Pension+ on 8th July, with emails for those registered issued on 30th July.

The Pensions Committee approved a Data Quality Improvement Plan in March 2019 (PC/MAR19/STRAT) which included address tracing. In line with the plan, a bulk tracing exercise for all “gone away” members i.e. those whom we do not hold a current address for is carried out every three years using an external tracing provider. The Fund utilise the services of Target as approved by the Pensions Committee in December 2021 (PC/DEC21/PRO) for member tracing.

In addition, a mortality check is carried out against “gone away’s” annually using the National Fraud Initiative and ATMOS Data Services on alternative years to identify any deceased members. For “gone away” deferred members reaching age 55, an individual trace will be carried out through the DWP Tracing Service.

A final update on the active member statements will be provided to the next meeting. Letters were posted for unregistered members on 6th August and email notifications are scheduled to be issued on 27th August for those already registered. Paper statements for those who have requested them will be issued on 18th August.

4.2 LGPS Frameworks

The National LGPS Framework for Additional Voluntary Contribution (AVC) services launched recently. The framework is split into two lots:

- AVC services
- Consultancy services associated with AVCs

Fund Officers will review the new Framework before deciding whether to proceed with a review of our current AVC services.

5. Systems

5.1 Performance Reporting

Following the review of the NESPF Pension Administration Strategy (PAS) in early 2023, the PAS report to Committee has now been revised to provide greater transparency around the service standards achieved by the Fund on a quarterly basis.

The Fund consistently reviews processes to reduce administrative complexities by introducing new workflows designed to simplify reporting requirements. Deferred processing has been revised to include additional measurements and statutory requirements, which will be more reflective of the actual member experience.

Performance will now be reported using new business intelligence and analytics software (Insights) which is fully integrated with the pension administration system. Insights displays performance in real time through dashboards created by the Fund. Dashboard information can be downloaded into Excel and this removes the requirement to run numerous reports and manually manipulate data.

In addition to quarterly performance, this new reporting also includes comparison against the previous quarter, information on data quality and progress on large scale exercises required by regulations e.g. McCloud and Pension Dashboards.

Appendix II, Pension Administration Strategy Report

6. Governance

6.1 Scheme Advisory Board

Copies of the latest bulletins and meeting are available at <http://lgpsab.scot>.

6.2 Document Updates

Copies of the draft policy documents can be found in the secure member area of the website (www.nespf.org.uk) or copies can be requested from the Governance Team. Any significantly revised or new documents will be included as appendices to this report.

- *Governance Compliance Statement* (update to Pensions Committee number from 13 to 9, minor amendments to reflect changes to operations e.g. employer bulletin, admin forum frequency etc.)
- *Employer Engagement* (minor grammatical amendments, update admin forum frequency to bi-ennial)
- *Conflicts of Interest* (amended references from Code of Practice 14 to General Code and other minor grammatical corrections)
- *Appointment and Management of Advisers and Service Providers* (**NEW**, collates and formalises procurement process from initial considerations, appointment and subsequent contract management to meet tPR General Code requirements – see **Appendix III**)

6.3 Pension Board Annual Report

The Pension Board Annual Report 2023/24 was agreed by the Pension Board members at their meeting on 21st June 2024. As part of the process, members were required to nominate and appoint a new Chair and Vice Chair for 2024/25. These posts need to be rotated annually under the regulations. Councillor Stephen Smith (Employer) was appointed as Chair with Gordon Walters (Trade Union) as Vice Chair.

Appendix IV, Pension Board Annual Report 2023/24

7. Employer Relationship

7.1 Scottish Fire and Rescue

The Scottish Fire and Rescue Service have decided to consolidate their liabilities within the Local Government Pension Scheme (LGPS) by transferring all member records and assets to Strathclyde Pension Fund (SPF). This “lift and shift” of pensions to the new administering

authority will be carried out following signing of a ministerial direction by the Scottish Ministers.

This large scale project, involving seven ceding Funds with SPF as the receiving Fund, is being managed by Hymans and the NESPF falls within Tranche 1 of the exercise. Tranche 1 aims to complete the transfer of all administrative responsibilities to SPF on 31st October 2024, with members data and assets having been moved to SPF as part of a detailed project plan. SPF will be responsible for all aspects of administration after the transfer date including payment of pensions for retired members.

The Employer Relationship Manager and the Benefits Administration Manager within the NESPF will be responsible for delivering the project in line with the Project Plan and ensuring that the member experience is not negatively affected by the ongoing works.

7.2 Employer Exits

Two participating employers have exited from the Fund since the start of the 2024/25 financial year.

Xerox exited the Scheme from 1st April 2024 following completion of their contract to provide services with one of our local authorities. The assets and liabilities held in respect of the employer are currently being assessed and any exit credit will be calculated and paid in line with the NESPF Termination Policy. As there is a guarantor in place for the admission agreement with Xerox, all assets and liabilities will be subsumed by that Scheme employer going forward.

Following a review of their pension liabilities and an employee consultation, SCARF exited the Fund with effect from 30th June 2024. No guarantor was held for this employer, therefore, in line with the NESPF Termination Policy a more prudent approach was applied when calculating the value of the liabilities upon exit. An exit credit in respect of the calculated surplus was paid to SCARF on 1st July 2024 and a termination certificate was issued to confirm that the liabilities had been discharged. All members were issued with a deferred benefits statement to confirm the value of their benefits as at the exit date.

7.3 National Pensions Dashboards

The deadline for all LGPS schemes to connect to the dashboard environment has been confirmed as 31st October 2025 and this is a statutory requirement for the NESPF. With this deadline in mind, the NESPF have secured a September 2024 slot for delivery of the Integrated Service Solution from Heywood (our benefit administration system provider), subject to the legal contract being in place by the end of August.

Risk Register



Pensions Dashboard

In line with best practice and the Pensions Regulator (tPR) Code of Practice, NESPF maintains a risk register to ensure the risks the Fund faces are properly understood, and risk mitigation actions are in place.

This Risk Register is reviewed and updated quarterly, with reporting to the Pensions Committee.

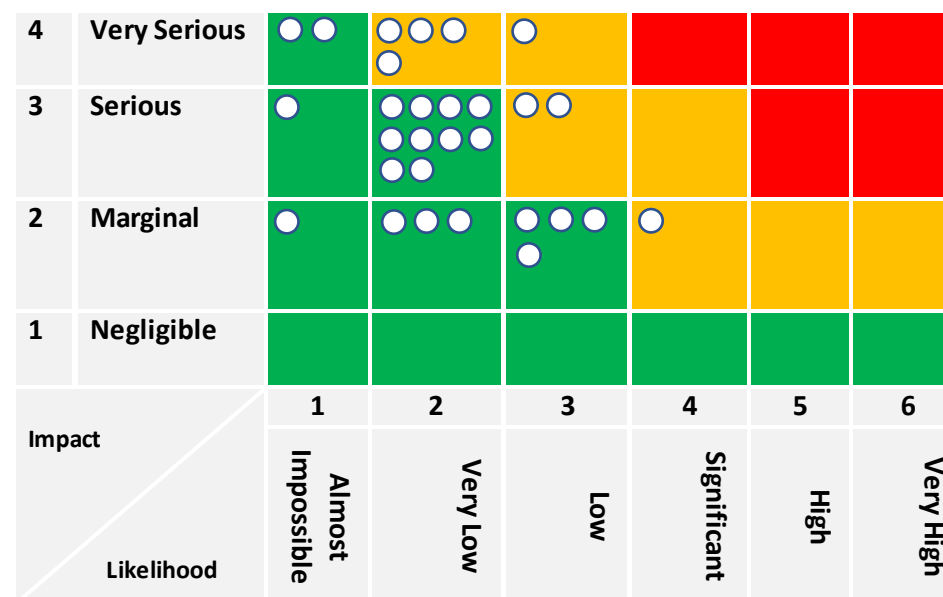
The Pensions Committee is responsible for receiving assurance on the effectiveness of NESPF risk management arrangements as per their Terms of Reference.

Risk Scoring Process

In order to apply an assessment rating (score) to a risk, NESPF implements a 4 x 6 matrix. The 4 scale represents the impact of a risk and the 6 scale represents likelihood of a risk event occurring.

4	Very Serious	4	8	12	16	20	24
3	Serious	3	6	9	12	15	18
2	Marginal	2	4	6	8	10	12
1	Negligible	1	2	3	4	5	6
Impact		1	2	3	4	5	6
	Likelihood	Almost Impossible	Very Low	Low	Significant	High	Very High

Current Heat Map (where risks NESPF001 through 029 fall)



Red = High Priority (urgent action required)

Orange = Medium Priority (assess adequacy of current controls, consider further action required to mitigate risk)

Green = Low Priority (no immediate action subject to exceptions, continue to review)

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
Pension Fund Level									
NESPFO01	Risk: Lack of effective risk controls	<ul style="list-style-type: none"> NESPF risk register is reviewed and updated quarterly by senior management team Consideration by Pensions Committee & Board at quarterly meetings NESPF specific Risk Management Policy in place and reviewed annually 	4	1	4	↔	TREAT		Ongoing
	Causes: Failure to implement risk management framework								
	Potential Impact: Operational, financial and reputational issues								
NESPFO02	Risk: Poor Governance	<ul style="list-style-type: none"> Annual review of Funds Governance Compliance Statement and supporting policies and procedures Adherence to Council's Scheme of Governance Committee Effectiveness Report to support good governance 	3	2	6	↑	TREAT	Next Committee Effectiveness Report due Dec'24. ACC Scheme of Governance annual review to be completed by Spring 2025.	Ongoing
	Causes: Lack of robust and effective governance framework and supporting policies and procedures								
	Potential Impact: Regulatory compliance issues, inability to determine policies and make effective decisions leading to poor service delivery and reputational risk								
NESPFO03	Risk: Lack of performance measures	<ul style="list-style-type: none"> Statutory and local KPI's Pension Administration Strategy published quarterly Investment performance (against benchmark) 	3	2	6	↔	TREAT	KPI review and new PAS reporting to Sept'24 meeting.	Ongoing
	Causes: Failure to develop performance reporting framework								
	Potential Impact: Lack of transparency, poor								

	performance could go unaddressed	reported to Committee quarterly in AIMP report							
NESPF004	Risk: Failure of Pensions Committee and Pension Board to operate effectively	<ul style="list-style-type: none"> • Publication of Pension Board Annual Report • Training Policy reviewed annually and training register in place • Nomination & Appointment procedure • Annual Committee Effectiveness Report • Monthly Committee & Board Bulletin • Monthly Hymans LOLA Progress Report 	3	3	9	↔	TREAT	Pension Board Annual Report approved Jun'24. Hymans Knowledge Progress Assessment completed in 2023. Training Policy updated and approved Jun'24. 2 long term Committee vacancies.	Ongoing
	Causes: Poor attendance/commitment to role, high turnover of members, lack of training								
	Potential Impact: Non-compliance with regulatory requirements, inability to make decisions or policies, reputational risk								
NESPF005	Risk: Operational Disaster; unable to access the workplace	<ul style="list-style-type: none"> • ACC Disaster Recovery policy in place • NESPF Business Continuity Plan to address loss/disruption to benefit administration system 	3	2	6	↑	TOLERATE	Disaster Recovery Testing ongoing.	Ongoing
	Causes: Major incident, natural disaster								
	Potential Impact: Loss of service delivery, staff downtime								
NESPF006	Risk: Failure to recruit, retain and develop staff	<ul style="list-style-type: none"> • All staff have individual development plans, reviewed regularly through CR&D • Training register to monitor 	3	2	6	↔	TREAT	Recruitment process ongoing for any outstanding posts, appointment of Modern Apprentices where appropriate.	Ongoing
	Causes: Limited pool of resources/competition with private sector, lack of training/development opportunities, resource drain from wider priorities								

	<p>Potential Impact: Loss of service delivery, risk to succession planning</p>	<ul style="list-style-type: none"> • 2 full time training & development staff • Internal 2 year training programme for benefit admin staff • Future-focused staffing structure, subject to ongoing review 						Operational Effectiveness review by Hymans ongoing.	
NESPF007	<p>Risk: Pay and price inflation valuation assumptions either higher or lower</p> <p>Causes: Economic factors</p> <p>Potential Impact: Potential increase in employer contribution rates and liabilities</p>	<ul style="list-style-type: none"> • Quarterly funding updates to Committee (using PFaroe) • Tri-ennial valuation • Individual employer contribution rates 	3	3	9	↓	TOLERATE	<p>Short term inflation continues to be impactful, directly affecting liabilities and pensions paid but starting to reduce.</p> <p>2023 valuation sets inflation assumption higher than in 2020 based on current environment but also reflects national long term forecast for lower inflation.</p>	Ongoing
NESPF008	<p>Risk: Over reliance on services provided by the Administering Authority (e.g. HR, Payroll, Legal, IT)</p> <p>Causes: VS/ER exercise leading to loss of knowledge and expertise, recruitment freeze, poor service provision</p>	<ul style="list-style-type: none"> • Internal controls including policies and procedures • Pensions Administration Strategy in place • Communication between Pensions 	4	3	12	↑	TOLERATE	<p>Ongoing issues being experienced.</p> <p>Operational Effectiveness review by Hymans ongoing.</p>	Ongoing

	Potential Impact: Ability to meet regulatory and tPR requirements, staff downtime, loss of service delivery/delays and staff time	Manager and ACC Chief Officers							
Governance									
NESPF009	<p>Risk: Failure to adhere to relevant pensions legislation and guidance</p> <p>Causes: Political and legislative changes, increased administrative complexity, staff training issue</p> <p>Potential Impact: Audit criticism, legal challenge, reputational risk, financial loss and tPR action</p>	<ul style="list-style-type: none"> • Six monthly compliance review, with annual reporting to Pensions Committee and Board • Active participation at LGPS events, Testing Working Party for administration software updates • Established processes for staff training • Oversight by Pensions Board • Regular benefit admin team meetings to share knowledge 	3	2	6	↔	TREAT	<p>Annual Compliance Report to Mar'24 committee meeting.</p> <p>Next six monthly compliance review due Dec'24.</p> <p>Ongoing review against TPR's new General Code.</p>	Ongoing
NESPF010	<p>Risk: Failure to comply with FOI or SAR requests</p> <p>Causes: Missed statutory deadlines due to training or resource issues</p> <p>Potential Impact: Audit criticism, legal challenge, reputational risk</p>	<ul style="list-style-type: none"> • Internal written procedures in place • FOI/SAR log to record & monitor • Online process through GovServices 	3	1	3	↔	TREAT		Ongoing
NESPF011	<p>Risk: Conflicts of Interest</p> <p>Causes: Competing professional and personal</p>		2	3	6	↓	TREAT		Ongoing

	interests of staff, Committee and Board members Potential Impact: Audit criticism, legal challenge, reputational risk	<ul style="list-style-type: none"> Regular discussions between CO-Finance and Pension Fund Manager Standing agenda item at meetings Conflicts policy & register in place, with conflicts declarations issued annually 							
Benefit Administration									
NESPF012	Risk: Fraud/Negligence Causes: Dishonesty or human error by staff, scheme members Potential Impact: Overpayment/unauthorised payments, system corruption, audit criticism, legal challenge, reputational risk	<ul style="list-style-type: none"> Segregation of duties for benefits staff authorising/submitted lump sum payments Pension payments signed off by benefits senior Enhanced Admin to Pay and Arrears Modules to provide calculation checks Participation in National Fraud Initiative exercise Overseas pensioner existence checking Breaches Policy & register Internal Audit control reviews 	3	2	6	↔	TREAT		Ongoing
Investments									
NESPF013	Risk: Insufficient assets to meet the Funds long term liabilities Causes: Failure of investment strategy or fund	<ul style="list-style-type: none"> Quarterly assessment of investment performance and funding updates 	4	1	4	↓	TREAT	Tri-ennial valuation process completed, Fund in very healthy position (126% funded) and	Ongoing

	managers to produce expected returns Potential Impact: Increase in employer contribution rates, investment risk, audit criticism, financial loss	<ul style="list-style-type: none"> • Tri-ennial valuation and investment strategy review • Diversification of assets • Due diligence of fund managers • External advisor for specialist guidance on strategy 						valuation approach continues to ensure high level of prudence. Investment strategy approved at Jun' 2024 meeting.	
NESPF014	Risk: Failure to monitor investment managers and assets Causes: Lack of internal procedures Potential Impact: Audit criticism, legal challenge, reputational risk	<ul style="list-style-type: none"> • Quarterly assessment and reporting of asset performance • Regular meetings with investment managers 	3	2	6	↔	TREAT		Ongoing
NESPF015	Risk: Failure of world stock markets Causes: Systemic Potential Impact: Increase in employer contribution rates, financial loss	<ul style="list-style-type: none"> • Diversification of Scheme assets • Tri-ennial valuation and investment strategy review 	4	2	8	↔	TOLERATE	Tri-ennial valuation completed, investment strategy approved at Jun'24 meeting.	Ongoing
NESPF016	Risk: Negligence/Fraud/Default Causes: Dishonesty by fund managers, lack of care or human error Potential Impact: Financial loss, reputational damage	<ul style="list-style-type: none"> • Due diligence on appointment and appropriate clause in legal agreements • Fund management monitoring • SAS 70 reports 	2	1	2	↔	TOLERATE		Ongoing
NESPF017	Risk: Failure of Global Custodian Causes: Financial market crisis, regulatory/political	<ul style="list-style-type: none"> • Regular meeting with custodian 	4	2	8	↔	TOLERATE	Global Custodian tender process underway following approval	Ongoing

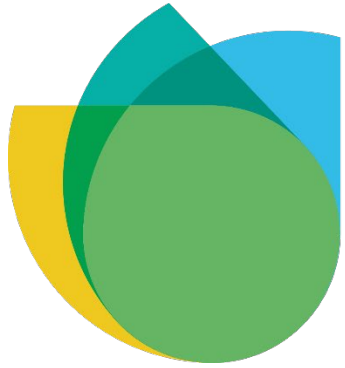
	Potential Impact: Loss of assets or control of assets	<ul style="list-style-type: none"> • Service Level Agreement in place • Receipt of SAS 70 reports and monitoring 						at Sept'23 Committee & Board meeting.	
NESPFO18	Risk: Failure to implement ESG policy	<ul style="list-style-type: none"> • Member training on roles and fiduciary duties • Policy incorporated within SIP • PRI membership, annual signatory assessment • Monitor impact of climate change • Adoption of TCFD • Quarterly reporting to Committee/Board on voting, carbon footprinting and engagement work. • Risk assessments with Fund Managers and Investment Consultant including Climate Scenario Analysis 	3	2	6	↔	TREAT		Ongoing
	Causes: Lack of skills/knowledge, lack of transparency on practices or clear policy								
	Potential Impact: Reputational damage								
Accounting									
NESPFO19	Risk: Poor financial reporting	<ul style="list-style-type: none"> • Comprehensive policies and procedures in place and review of <i>the Code</i> • Attending CIPFA meeting and reviews 	3	2	6	↔	TREAT	Draft Annual Report & Accounts approved Jun'24 meeting.	Ongoing
	Causes: Lack of internal policies and procedures, failure to keep up to date with changes in the Code of Practice and other								

	overriding changes, training issues Potential Impact: Qualified accounts	<ul style="list-style-type: none"> Regular reconciliations e.g. fund managers, custodian Internal/External Audits 							
Systems									
NESPF020	Risk: Failure to secure and manage personal data in line with data protection requirements Causes: Cyber-attack, human processing error Potential Impact: Audit criticism, legal challenge, reputational risk, financial penalties	<ul style="list-style-type: none"> Annual information governance training for staff Policies and procedures in place and reviewed regularly (Breaches, Data Protection, Systems Access and Retention Schedule) Secure physical storage measures Admin system providers implement range of protections against cyber threats including encryption, firewalls, annual 3rd party penetration testing etc 	4	2	8	↔	TREAT	Staff complete annual information governance refresher training and further training to be carried out over 2024.	Ongoing
NESPF021	Risk: Failure of the Fund's administration system Causes: Outages, hardware and software failures and cyber attacks Potential Impact: Staff downtime, loss of service delivery	<ul style="list-style-type: none"> Administration system is hosted externally with back up in separate location Regular software updates Business continuity and disaster recovery plans in place 	4	2	8	↔	TOLERATE	Increased risk of cyber-attacks globally, mitigations in place. NESPF Cyber Security Policy and Cyber Incident Response Plan in place.	Ongoing

NESPFO22	Risk Failure to track member status and trace information	<ul style="list-style-type: none"> Tracing service in place (ATMOS) Use of 'Tell Us Once' service Data quality improvement plan including measures to trace Existence checking 	2	3	6	↔	TREAT	New mortality tracing. Data uploaded and checked against national death records, automatically creates cases on Altair administration database with output dashboard with lower priority matches. Review of new process ongoing.	Ongoing
	Causes: Poor record keeping								
	Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, tPR action								
Employer Relationship									
NESPFO23	Risk: Failure to monitor employer covenant	<ul style="list-style-type: none"> Continued implementation of Covenant Assessment and Monitoring Policy (within FSS) Online liability monitor which tracks funding levels and liabilities for each individual employer 	2	2	4	↓	TREAT		Ongoing
	Causes: Failure of internal procedures								
	Potential Impact: Orphaned liabilities could fall on remaining employers								
ESPF024	Risk: Changes in early retirement strategies by employers	<ul style="list-style-type: none"> Management through Covenant Assessment and Monitoring Policy (within FSS) 	2	3	6	↔	TREAT	Increasing budget constraints are leading more employers to redundancy/early retirement exercises. Employers are	Ongoing
	Causes: Public service cuts to funding								
	Potential Impact: Pressure on cash flows								

								aware of cost implications. Strain on Fund factors reviewed by scheme actuary in 2023.	
NESPF025	Risk: Employers leaving Scheme or closing to new members	<ul style="list-style-type: none"> • Management through Covenant Assessment and Monitoring Policy (within FSS) • Cost Cap mechanism introduced in LGPS regulations • Termination Policy reassessed in line with the 2023 Fund Valuation 	2	4	8	↑	TREAT	New flexibilities, guarantors in place, new Termination Policy and current funding position.	Ongoing
	Causes: Public service cuts to funding, increased pension contribution costs								
	Potential Impact: Orphaned liabilities could fall to remaining employers								
NESPF026	Risk: Longevity	<ul style="list-style-type: none"> • Tri-ennial valuation undertakes scheme specific analysis including review of life expectancy/mortality assumptions which are set with some allowance for increases 	2	2	4	↔	TOLERATE	Demographic assessment carried out by the scheme actuary in 2022/23 which was fed into 2023 valuation.	Ongoing
	Causes: Increasing life expectancy rates								
	Potential Impact: Increase in employer contribution rates and liabilities								
NESPF027	Risk: Employer contributions not received, collected or recorded accurately	<ul style="list-style-type: none"> • Internal escalation procedures • Breaches policy and register Monthly data submission reconciled by ERT • Quarterly PAS reporting to Committee & Board • Ongoing training provided by dedicated 	2	3	6	↔	TREAT	LGPS (Scotland) Regulations delivered Summer 2022 to help manage risk. New employer contribution rates put in place following 2023 valuation. All	Ongoing
	Causes: Lack of staff resources, training issues								
	Potential Impact: Orphaned liabilities could fall to remaining employers								

		ERT to scheme employers • Employer Briefings						employer contribution requirements reduced for inter-valuation period 2024-27.	
NESPF028	Risk: Failure to maintain member records; data incomplete or inaccurate	<ul style="list-style-type: none"> • Monthly data from employers which is reconciled by ERT • Quarterly PAS reporting to Committee & Board • Data quality improvement plan implemented • Data readiness assessment for Pensions Dashboard Project 	3	2	6	↑	TREAT	Work is ongoing to ensure records are as up to date as possible in readiness for Pensions Dashboard connection by 2026.	Ongoing
	Causes: Lack of staff resources, training issues								
	Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, reputational damage, tPR action								
NESPF029	Risk: The Fund is unable to adequately comply with required administrative processes owing to McCloud judgement	<ul style="list-style-type: none"> • SAB and other industry guidance • Early and ongoing communication with employers • McCloud project team created 	2	2	4	↔	TREAT	Now “Live” with McCloud. Majority of historic recalculations completed.	Ongng
	Causes: Not having the required historic data, adequate resources, sufficient guidance								
	Potential Impact: Breaches and potential action by tPR, increase in liabilities, incorrect pension entitlements, damage to Fund reputation								



North East Scotland Pension Fund
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Pension Administration Strategy

Quarterly Reporting to 30th June 2024

1. NESPF performance from 1st April to 30th June

1.1 Key administration tasks

Measuring performance is essential to evidence the efforts made by both the Pension Fund and Scheme employers to comply with statutory requirements and deliver a high-quality pension administration service.

Measurement and Target	Cases completed	Within target	Percentage achieved	Outwith target	Average days over target	Previous period percentage	Percentage movement
Death In Service notification within 5 working days	5	5	100.0%			85.7%	14.3%
Death of Deferred/Pensioner notification within 5 working days New	89	84	94.4%	5	12.00		
Deferred Benefit Care Only within 60 days New	67	67	100.0%				
Deferred Benefit Final Salary within 60 days New	47	47	100.0%				
Deferred Benefit notification within 10 working days	243	237	97.5%	6	1.00	91.4%	6.1%
Refund within 10 working days	183	180	98.4%	3	9.33	97.0%	1.4%
Retirement Benefit within 10 working days	421	301	71.5%	120	5.56	88.3%	-16.8%
Retirement Estimate within 10 working days	100	100	100.0%			92.3%	7.7%
Transfer In quotation within 10 working days	13	11	84.6%	2	11.50	70.6%	14.0%
Transfer Out quotation within 10 working days	49	43	87.8%	6	8.67	65.8%	22.0%
Totals	1217	1075	88.3%			88.6%	-0.3%

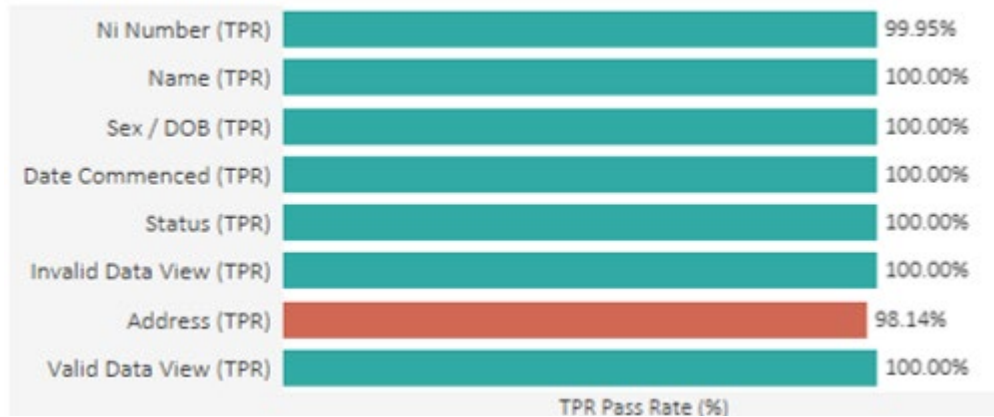
Percentage Analysis

- Overall percentage achieved at 88.3% is similar to previous quarter but below the 91% achieved for 2023/24.
- Percentage decrease of 16.8% for retirement benefits was caused by issues applying pension increase at year end that resulted in processing delays.
- Percentage increases for transfer processing shows improvement following processing delays last year caused by SCAPE rate change and McCloud regulations.

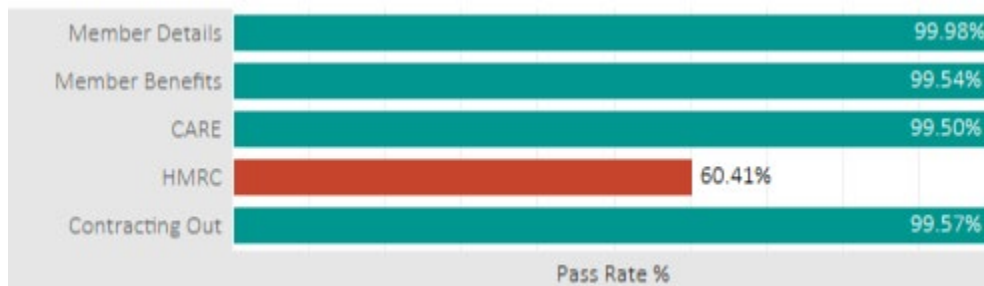
1.2 Data quality

The Pension Regulator (TPR) requires Common and Scheme Specific data to be measured and reported annually in October.

Common Data Score = 98.8% (TPR target 100%)



Scheme Specific Data Score = 81.45% (TPR target 100%)



HMRC score of 60.41% is due to 2023/24 annual allowance calculations not updated in administration system (statutory deadline 30 September 2024).

1.3 McCloud remedy

In December 2018 the Court of Appeal ruled in McCloud v Ministry of Justice that “transitional protection” offered to some members as part of pension reform amounted to unlawful discrimination. In July 2019 following employment tribunal Government stated difference in treatment would be remedied across all public sector schemes.

This dashboard provides an update on progress made to extend protections by recalculating benefits for all eligible members in accordance with The Local Government Pension Scheme (Remediable Service) (Scotland) Regulations 2023.

Before calculating the underpin we must first calculate the assumed benefits which is the Care benefits that will be compared against the Final Salary benefits to determine whether revised protection applies. Where protection applies this will be known as the Final Guaranteed Amount.

Eligible member processing



Members with Final Guaranteed Amounts



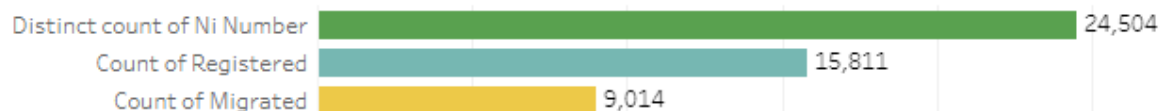
Cost of Final Guaranteed Amounts



1.4 Members online

This dashboard shows members that have registered for online self service and those that have migrated to *My Pension+* which went live on 26 June 2023.

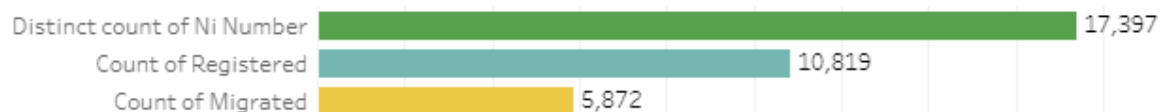
Actives



Percentages

Registered members	64.5%
Migrated members	57.0%

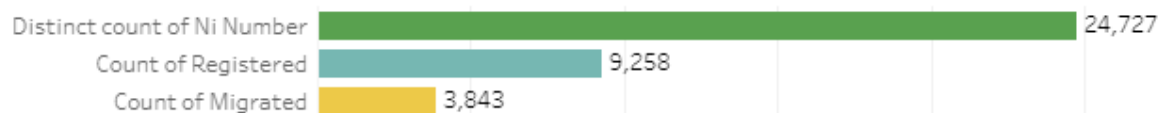
Deferreds



Percentages

Registered members	62.2%
Migrated members	54.3%

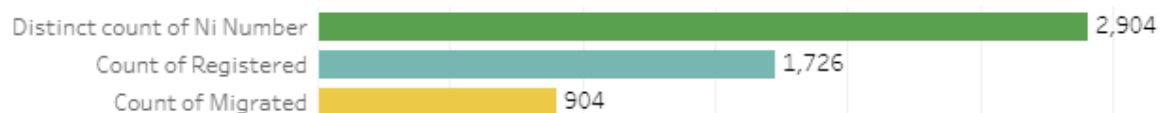
Pensioners & Dependants



Percentages

Registered members	37.4%
Migrated members	41.5%

Undecided Leavers



Percentages

Registered members	59.4%
Migrated members	52.4%

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Appointment and Management of Advisers and Service Providers

May 2024

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Document	Appointment and Management of Advisers and Service Providers
Review Date	June 2024
Approval Date	
Author & Team	M Suttie, Governance
Review Date	May 2025

Introduction

This document has been prepared for North East Scotland Pension Fund (NESPF), part of the Local Government Pension Scheme (LGPS), as administered by Aberdeen City Council (ACC), to assist NESPF in the appointment and management of service providers and advisers.

This document is supported by the wider NESPF, ACC policies and procedures, as well as guidance provided by the Pensions Regulator.

Application and Scope

The governing body (the “scheme manager”) often appoints professional advisers and service providers and in some cases these appointments are required under regulations. These appointments may be to carry out specific tasks or to provide advice and supplement the skills and knowledge of the governing body.

Where the governing body appoints advisers and service providers, it retains ultimate accountability. The governing body should be able to demonstrate that it can manage commercial relationships. This document applies to both in-house and third-party appointments.

In selecting advisers and service providers, governing bodies should first establish agreed and documented policies and procedures for making appointments to the scheme. This document should be reviewed at least every three years, before commencing any procurement or appointment process.

Selection

Consider running a tender process when appointing advisers and service providers and commit enough time and resources.

Procurement is the process of purchasing goods, services and works from external suppliers. Good procurement makes sure that we get the “best value” for the services we provide both for ourselves and for our stakeholders.

Forward planning is key for all procurement over £50,000 (revenue) or £250,000 (capital). You should be planning **at least 12 months in advance** of the required contract start date (and for more complex/high risk procurement activity the lead in time will be longer).

If you need to select and appoint an adviser or service provider, there are key stages to follow:

1. **Establish Project Team** – Who will be involved, what will their role within the project be?



2. **Lessons learned** – Review feedback, review current arrangements, incorporate lessons learned into the strategy.
3. **Engage with suppliers** – Discuss your requirements with suppliers, consider whether a supplier event or questionnaire may be useful.
4. **Develop Strategy/Identify Procurement Route** – Identify preferred option for the procurement, consider what is to be included.
5. **Board/Committee Approval** – Approval of the Demand Management Control Board then appropriate committee.

By establishing the **total value (see Appendix II)** of the contract, it will help determine the procurement route and steps to take next:

Level 1 Procurement	
Goods or Services	Less than £10,000
Works	Less than £10,000

Level 1 procurement contracts do not require to be formally tendered. However, before proceeding you must ensure:

- You have the consent of appropriate Line Managers and Budget Holders (and if necessary, any Chief Officers, Directors, Council Members or Committees);
- Have Level 1 Delegated Procurement Authority; and
- You obtain one written quote from a suitable supplier and demonstrate that supplier offers best value to the Council.

Level 2 Procurement	
Goods or Services	£10,000 - £49,999
Works	£10,000 - £249,000

Level 2 procurement contracts do not require to be formally tendered, and a Quotation Exercise can be undertaken. However, in some cases, you may identify that a full tender exercise is required – see Level 3. However, before proceeding you must ensure:

- You have the consent of appropriate Line Managers and Budget Holders (and if necessary and Chief Officers, Directors, Council Members or Committees);
- Have Level 2 Delegated Procurement Authority; and
- Identify individuals with relevant experience to evaluate responses (if required).

Level 3 Procurement	
Goods or Services	£50,000 – EU Threshold



Works	£250,000 – EU Threshold
-------	-------------------------

Level 3 procurement contracts or framework agreements will be required to be formally tendered. To be able to run a Tender you must make sure you:

- Have the consent of appropriate Line Managers and Budget Holders (and if necessary, any Chief Officers, Directors, Council Members or Committees);
- Have the appropriate approvals in place; and
- Have Level 3 Delegated Procurement Authority.

Direct Award

There is a possible exemption to running a tender exercise. This is known as “Non-Competitive Action” (NCA) and allows a contract to be placed directly with one supplier subject to a written quote being obtained. It should be noted that this is only granted in exceptional circumstances i.e. where competition is deemed not appropriate and is dealt with on a case-by-case basis.

Some possible examples include where:

- It is necessary because of an unforeseeable emergency involving immediate risk to persons, property, or serious disruption to Council services;
- The goods, works or services can only be supplied or provided by one specialist firm (this is increasingly unlikely and auditable evidence will be required);
- The goods, works or services are proprietary articles or are sold only at a fixed price and no reasonably satisfactory alternative is available; or
- The prices of goods, works or services are wholly controlled by trade organisations or government order and no reasonable satisfactory alternative is available.

ACC Procurement colleagues can provide further information on Direct Awards (CPSSprocurement@aberdeencity.gov.uk).

Carefully consider any proposed degree of delegation, as well as the experience and skill set of the chosen service provider.

Procurements shall only be carried out by Delegated Procurers who have been designated as such by the Head of Commercial and Procurement.

Delegated Procurement Authority (DPA) is the authority to procure and enter into contracts for goods, services and works on behalf of the Council. A Delegated Procurer will oversee the process leading up to and including the procurement or award of a contract, as well as having the responsibility for managing elements of any resulting contract.

The Governance Manager and Senior Pensions Officer-Governance have DPA (up to Level 3) for the Pension Fund, having completed the relevant procurement training through ACC Learn. They also hold



the appropriate access right on Public Contracts Scotland ([Home - Public Contracts Scotland](#)). DPA is reviewed on an annual basis or as required.

Be familiar with and understand the impact of the terms and conditions of contracts with service providers.

Officers should liaise with CPS Legal colleagues to seek a review of the terms and conditions of any potential contractual arrangements (cpslegal@aberdeencity.gov.uk). Frameworks such as the Norfolk LGPS Framework will come with Standard T&C's, although these need to be reviewed, no substantial changes can be made. For all other contracts, ACC have their own standard T&C's which should be used and those of the advisor or provider will not normally be accepted.

Review relevant independent frameworks, such as ISO certification or accreditation frameworks for specialist functions like administration.

The Public Contracts (Scotland) Regulations 2015 set out rules describing how to advertise, how to describe specifications, how to decide on selection criteria, how to allow tenderers to submit and how to award contracts.

- **A Contract**

A contract is a legally binding agreement between two parties creating obligations enforceable by law. A procurement contract sets out the details of what is being procured, from whom, and the rights and obligations of the parties involved.

- **A Framework Agreement**

This is an agreement made between one or more contracting authorities and one or more suppliers. It sets out the terms and, in particular, the prices to be charged, under which individual contracts (call-offs) can be made throughout the duration of the agreement. Call-off contracts are awarded under the framework agreement's existing terms and conditions and no material changes to the terms can be made. Calling off from a framework may only be done in accordance with the procedures laid down within that framework which is usually either by Direct Award or Mini Competition. NESPF currently utilises several Frameworks including the Norfolk LGPS Frameworks (for Actuarial, Global Custody, Investment Consultancy, Member Data Services), the Northumberland Framework (for Heywood), the Crown Commercial Services (CCS) Framework and The City of Edinburgh Council (CEC) Framework (for External Legal) and most recently the KCS Framework for Facilities Services.

In order to use a Framework, it must first be approved for use by Commercial and Procurement Services. If you need to use a Framework which has not been used before, you should liaise directly with ACC Procurement colleagues. They will guide you through the process if you need to have the Framework added to their "Approved List". An Adoption Report will need to be completed and signed off by the Chief Officer – Finance, this is usually completed by the Procurement Team before you move on to the next stages of the procurement process.



- **A Dynamic Purchasing System (DPS)**

This is similar to a framework agreement with two exceptions:

- 1) New suppliers can join at any time over the agreement period; and
- 2) Call-offs from a DPS can only be made via further competition (such as a mini-competition).

If you are unable to source your requirement through any of the above options you will need to undertake a full procurement in order to comply with the Council's procurement governance. ACC Procurement colleagues will guide you through this process.

The Appointment Stage

Assess service providers and carry out due diligence as part of the appointment process.

Clearly set out the roles and responsibilities of service providers and advisers

When appointing advisers and service providers, governing bodies should:

- Agree appropriate delegations and procedures for referral;
- Agree performance indicators on appointment and secure accountability within the service provider;
- Include a process for managing advisers, recording decisions taken as well as escalation points;
- Ensure the flow of communication with the service provider or adviser, so all parties have the necessary information to make key decisions and to fulfil their assigned responsibilities and roles;
- Take steps to identify and manage conflicts of interest; and
- Understand the implications of data protection legislation for any information that will be shared with or handled by service providers.

The Delegated Procurer should be engaged early in the process to ensure that service level requirements and Key Performance Indicators (KPIs) are appropriate and built into the tender documentation/contract.

KPIs provide a mechanism to measure and understand how well the NESPF and/or their suppliers are performing in relation to their strategic goals and objectives. KPIs should be SMART (Specific; Measurable; Attainable; Realistic and Time-bound).

In relation to conflicts of interest and data protection, Officers will consider appropriate guidance from ACC Legal and Procurement colleagues and the Governance Team, as well as referencing NESPF Conflicts of Interest and Data Protection Policies. A Data Protection Impact Assessment may need to be completed e.g. where your proposal requires personal information to be held or processed off site or may be shared with or accessible to the host provider.

The appointment and management of fund managers is dealt with separately in the Investment Policy.



Business Case

Officers must complete a Business Case and submit this to the Demand Management Control Board for sign off. The Business Case Template can be found at [Procurement Business Cases and Work Plans \(sharepoint.com\)](#). It should be completed with input from relevant parties and ACC Legal and Procurement Colleagues. The Business Case will require you to provide information which will have been acquired during due diligence process and will also set out details of service performance, monitoring and risk management.

Demand Management Control Board

The Demand Management Control Board (DMCB) provides scrutiny of all revenue spend above £50,000 providing a robust process and level of scrutiny around all procurement and contract management activity.

A list of the dates for the DMCB is available on the Council intranet within the [procurement pages](#). The deadline for DMCB papers is 10 working days prior to the meeting date and papers should be submitted to MeMackenzie@aberdeencity.gov.uk. Once submitted, business cases will be uploaded to the DMCB team site and shared with editing rights. They will also be shared with your Chief Officer, Finance, Legal and Procurement for review and sign off. Business case authors are invited to the DCMB meeting to answer any questions the board may have.

Pensions Committee

Under the ACC Procurement Regulations, the Director of Resources can approve (or nominate a person as having authority to approve) any procurement or contract, as a result of a decision of the Pensions Committee and/or a relevant business case, where the Contract Value of the contract is of or above £50,000 (supplies/services) £250,000 (works) or £4.5m (concessions), following consultation with the Chief Officer – Finance and the Head of commercial and Procurement.

A procurement report should be submitted to the Pensions Committee following discussions with procurement colleagues and sign off by the DMCB of the business case. You should plan effectively to ensure there is sufficient time given the Committee only meets every three months. The Governance Team can provide guidance on preparing your report.

Contract and Supplier Management

Managing contracts and suppliers effectively is necessary to achieve contractual deliverables and best value. Improved relationships with our suppliers and realising contract efficiencies is dependent on robust Contract and Supplier Management throughout the lifetime of contracts.

Delegated Procurers shall ensure that the performance of any contract or supplies is monitored and reviewed in a way which is proportionate to the value, duration, subject matter, and complexity of the contract.

When managing advisers and service providers, governing bodies should:



- Seek to ensure that advisers make you aware of any relevant obligations, professional conduct rules and whistleblowing requirements that they may be obliged to follow.
- Ensure service providers can demonstrate that they are fulfilling the requirements of any legal obligation that has been delegated to them.
- Ensure service providers can demonstrate that they have adequate internal controls relating to the services they provide.
- Regularly assess performance against agreed key performance indicators (KPIs) and service level agreements (SLAs). Record outcomes and ensure all actions are allocated for remedy with progress tracked.
- Review the performance of advisers and service providers against the objectives set for them, including strategic objectives.
- Periodically review the market for relevant service providers and consider if the scheme continues to receive quality service and value for money. This may be part of any value for members assessment run by the Scheme.
- Have enough knowledge and understanding to enable them to fully understand any advice or information they receive.
- Understand how any advice or information they receive affects decisions or activities that they are legally responsible for.
- Have a process to ensure that improvements are made where poor service is identified.
- Work with service providers to understand and secure any necessary resources to deal with forthcoming legislative or scheme changes.
- Have clear documented procedures in place, to allow a continuous and consistent service if the service provider changes or fails.

Contract Register and Management

Amelior is the contract database used by Aberdeen City Council to record their procurements (including those of the NESPF). All contracts with a value of £10,000 or above including extension options need to be entered into Amelior. This includes quick quote, direct award, tender, dispensations/exceptions, framework, external framework, mini-comps, call-offs, and service level agreements.

Services must obtain a contract reference number from Amelior at the outset of any procurement with a value of £10,000 or above. Procurement colleagues can assist with this. The Governance Manager also has access to Amelior.

NESPF maintains its own contract register, separate to the ACC contract register. All information relating to a new contract should be shared with the Governance Team for recording and ongoing management in addition to recording on Amelior.

Poor Performance or Issues

There may be circumstances where it is necessary for the governing body to replace an adviser or service provider. This may include cases where service has been consistently poor or no longer demonstrates good value; or where a contract is not or cannot be renewed. In such circumstances, it would be



appropriate for the governing body to act to ensure that there is no member detriment from their actions. In replacing advisers and service providers, governing bodies should:

1. Consider the interests of the scheme members when replacing the advisers and service provider.
2. Understand the impact of the terms and conditions of contracts, including any fees or penalties, and procedures for releasing relevant information to the governing body and new advisers.
3. Understand the risks associated with transitioning to a new provider and put plans in place to mitigate them.
4. Plan effectively for the transition to a new adviser or service provider, setting out the key steps, actions, decisions, owners, and timescales, including how costs will be met.

Where issues arise during the term of the appointment, Officers should attempt to resolve these informally with the provider in the first instance. However, should issues persist, further advice must be sought from ACC Procurement colleagues on the appropriate next steps.

Supporting Policies and Regulations

This procedure is supported by wider NESPF and ACC policies and procedures, including but not limited to:

- Public Contracts (Scotland) Regulations 2015
- General Data Protection Regulation (GDPR)(EU) 2016/679
- Freedom of Information (Scotland) Act 2002
- Public Procurement Regulations 2016
- Transfer of Undertaking (Protection of Employment) Regulations 2006
- Procurement Reform (Scotland) Act 2014
- NESPF Data Protection Policy
- Conflicts of Interest Policy
- Breaches Policy
- Investment Policy
- Powers Delegated to Officers
- ACC Procurement Regulations and Procurement Manual

Training

All NESPF staff and members of the Committee and Board will receive relevant training and keep this up to date. Those members of staff undertaking procurements will complete the mandatory ACC Learn modules relevant to the level of DPA they require.

Responsibilities

Day-to-day responsibility for the implementation of this policy sits with the Chief Officer-Finance and dedicated staff within the Pensions Team.

The Pensions Committee will review this policy annually, or in the event of any policy revision and taking account of the results from any training needs analysis and emerging issues.

Any questions or feedback on this document should be forwarded to the **Governance Team**:

NESPF
Level 1, 2MSq
Marischal Square
Broad Street
Aberdeen
AB10 1LP

Email: governance@nespf.org.uk
Web: www.nespf.org.uk

Procurement Thresholds (from 1 January 2024 to 31 December 2025)

These threshold values are used to determine whether a public contract falls within the scope of the Scottish public procurement regulations. These threshold values are updated every two years to ensure they remain aligned to the threshold values set by the World Trade Organisation's Government Procurement Agreement.

The Public Contracts (Scotland) Regulations 2015

Supplies & Services (except subsidized services contracts)	
Central Government Bodies	£139,688 (£116,407 ex VAT)
Others	£214,904 (£179,087 ex VAT)

Subsidised Services Contracts	
All bodies	£214,904 (£179,087 ex VAT)

Works	
All bodies	£5,372,609 (£4,477,174 ex VAT)

Light Touch Regime for Services	
All bodies	£663,540 (£552,950 ex VAT)

Small Lots	
Supplies and Services	£70,778 (£58,982 ex VAT)
Works	£884,720 (£737,267 ex VAT)

The Public Contracts (Scotland) Regulations 2015

6.-(1) A contracting authority must

- (a) Calculate in accordance with the following paragraphs the estimated value of a contract by reference to the total amount payable under it (regardless of the form of such payment), inclusive of value added tax, where appropriate; or
 - (b) If it is not possible to calculate the estimated value of a contract, take its estimated value to be equal to the relevant threshold mentioned in regulation 5.
- (2) The total amount payable includes the amount payable as a result of the exercise of any form of option and any renewal of the contract as explicitly set out in the procurement documents.
- (3) Where a contracting authority provides for prizes or payments to candidates or tenderers it must take them into account when calculating the estimated value.
- (4) Where a contracting authority is comprised of separate operational units the authority –
- (a) may calculate the estimated value by reference to each such unit where that unit is independently responsible for its procurement; and
 - (b) must calculate the estimated value by reference to the total for all the operational units which are not so responsible.
- (5) A contracting authority must not choose a method to be used to calculate the estimated value of a contract with the intention of excluding the contract from the application of these Regulations.
- (6) A contracting authority must not sub-divide a contract with the effect of excluding the contract from the application of these Regulations unless such sub-division is justified by objective reasons.
- (7) The estimated value must be the value estimated at the moment at which the procurement is commenced.
- (8) In the case of a framework agreement or dynamic purchasing system the estimated value shall be the total estimated value of all the contracts envisaged pursuant to and for the total term of the agreement or system.
- (9) In the case of an innovation partnership the estimated value shall be the total estimated value of the research and development activities to take place during all stages of the partnership together with the estimated value of works, supplies or services to be developed and delivered by the partner.
- (10) In the case of a public works contract the estimated value shall include the total estimated value of any supplies and services that are necessary for executing the works and are to be provided by the contracting authority to the contractor.
- (11) In the case of a public works contract or public service contract to be awarded in the form of separate lots, the estimated value shall be the total estimated value of all such lots.

- (12) In the case of a contract for supplies which may be awarded in the form of separate lots the estimated value shall be the total estimated value of all such lots and these Regulations apply to each lot accordingly where the aggregate value of the lots is equal to or greater than the relevant threshold referred to regulation 5 (thresholds).
- (13) In the case of public supply contracts or public service contracts which are regular in nature or which are intended to be renewed in a given period, the estimated value shall be calculated by reference to –
- (a) the total actual value of contracts of the same type awarded during the period of 12 months or the financial year preceding the proposed award of a further contract but with adjustment of such value, where possible, to take account of the changes in quantity or value which the authority considers likely to occur during the period of 12 months following the award of the contract; or
 - (b) the total estimated value of the successive contracts awarded during the 12 months following the first delivery, or during the financial year where that is longer than 12 months.
- (14) In the case of a public supply contract relating to the leasing, rental, hire or hire purchase of products the estimated value shall be –
- (a) in the case of a fixed term contract for a period of less than or equal to 12 months, the total estimated value of the contract;
 - (b) in the case of a fixed term contract for a period of more than 12 months, the total value including the estimated residual value; and
 - (c) in the case of a contract without a fixed term or the term of which cannot be defined, the monthly value multiplied by 48.
- (15) In the case of a public service contract for a service of a kind mentioned in this paragraph, the estimated value shall be calculated by reference to –
- (a) for insurance services, the premium payable and any other form of remuneration;
 - (b) for banking and other financial services, the fees, commissions payable, interest and any other form of remuneration; and
 - (c) for design contracts, the fees, commissions payable and any other form of remuneration.
- (16) In the case of a public service contract which does not indicate a total price, the estimated value must be calculated by reference to –
- (a) in the case of a contract for a fixed term of less than or equal to 48 months, the total value of the contract for its full term; and
 - (b) in the case of a contract for a fixed term of more than 48 months or a contract without a fixed term, the monthly value multiplied by 48.



North East Scotland Pension Fund

nespf



Pension Board Annual Report

1 April 2023 to 31 March
2024

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Introduction

This is the 2023/24 annual report of the North East Scotland Pension Fund Pension Board.

The North East Scotland Pension Fund (NESPF) Pension Board is required by The Public Service Pensions Act 2013 and has responsibility for assisting the 'Scheme Manager' in securing compliance with all relevant regulations in respect of the Local Government Pension Scheme (Scotland), as well as with the Pension Regulator's General Code of Practice.

The aim of this report is to provide an annual review of the activity of the NESPF Pension Board for the year 2023/24.

Legal Background to the Local Pension Board

Lord Hutton was asked to conduct a wide ranging review into public service pensions on behalf of the Independent Public Service Pensions Commission (IPSPC) and his final report was published in March 2011. In the report a series of reforms were proposed which Lord Hutton believed would allow public service employees to continue to have access to good quality, sustainable and fairer defined benefit pension schemes for the foreseeable future.

One of the key recommendations was the introduction of a new formal regulatory framework to ensure independent review of the governance of public sector pension schemes. This included a properly constituted and trained Pensions Board at both national and local level for the Local Government Pension Scheme (LGPS), with overall responsibility for governance and administration and formal member representation.

In response to the report recommendations, The Public Service Pensions Act 2013 and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 were subsequently introduced.

These two pieces of legislation brought about changes in governance arrangements for the LGPS, including the requirement for each administering authority to establish a local pension board to assist them in running the pension fund from 1 April 2015.

The Role of the NESPF Pension Board

The role of the local pension board is to assist the 'Scheme Manager' (i.e. Aberdeen City Council as the administering authority) in:

- Securing compliance with the LGPS (Scotland) 2018 regulations and other regulations relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- Securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator (tPR);

- Such other matters as the Scheme regulations may specify

The Pension Board has a monitoring, assisting and reviewing purpose rather than being a decision making body.

A copy of the Board's Nomination and Appointment Policy can be found at <http://www.nespf.org.uk/TheFund/Governance/PoliciesStatements.aspx>.

Regulatory Oversight by the Pensions Regulator (tPR)

The Public Service Pensions Act 2013 also gave the Pensions Regulator (tPR) an expanded role to regulate the governance and administration of public service pension schemes from 1 April 2015.

In carrying out their role for public service pension schemes, tPR are guided by two of their statutory objectives; to protect the benefits of members of occupational pension schemes, and to promote and to improve the understanding of, the good administration of work based pension schemes.

The aims of tPR in relation to the regulation of public service pension schemes are:

- To understand governance and administration practices within public service schemes and make clear the standards and practices that are expected,
- To improve governance and administration standards and practices across all schemes, and
- To support those responsible for complying with legal requirements so that those requirements are met.

TPR's General Code of Practice came into force on 28 March 2024. The General Code sets out the standards of conduct and practice tPR expect of those responsible ("governing bodies") for occupational, personal and public service pension schemes, as well as practical guidance on how to comply with the legal requirements. The governing body for the NESPF is the Scheme Manager.

The governance of public service pension scheme will need to take into account the differing responsibilities of the scheme manager, pension board and where appropriate, the pension committee. The Code sets out expectations for pension boards to help them assist the scheme manager.

The General Code is made up of 51 topic based modules, contained within the following sections:

Governing Body:

- Board Structure and Activities
- Knowledge and Understanding Requirements
- Value for Scheme Members
- Advisors and Service Providers





- Risk Management
- Scheme Governance

Funding and Investment:

- Investment

Administration:

- Scheme Administration
- Information Handling
- IT
- Contributions

Communications:

- Information to Members
- Public Information

Reporting to TPR:

- Regular Reports
- Whistleblowing – Reporting Breaches of the Law

The North East Scotland Pension Fund Pension Board

The Terms of Reference for the NESPF Pension Board can be found in [Appendix I](#).

Membership

The NESPF Pension Board is made up of an equal number of member (trade union) and employer representatives. The Pension Board membership is shown below;

Membership	Name	Member as at 31 March 2023	Joined	Left	Member as at 31 March 2024
Unison	Morag Lawrence (Chair)	Yes			Yes
GMB	Neil Stirling	Yes			Yes
First Bus	Ian Hodgson	Yes		22/09/2023	No
Robert Gordon University	Jeremy Lindley	No	15/02/2024		Yes
Unite	Alan Walker	Yes			Yes
UCATT/Unite	Gordon Walters	Yes			Yes
Aberdeenshire Council	Cllr Stephen Smith (Vice Chair)	Yes			Yes
Aberdeen City Council	Cllr Jessica Mennie	Yes			Yes
The Moray Council	Cllr Graham Leadbitter	Yes		15/12/2023	No
The Moray Council	Cllr David Gordon	No	19/12/2023		Yes
Total		8	2	2	8

In compliance with the Local Government Pension Scheme (Governance)(Scotland) Regulations 2015, the Chair and Vice Chair of the Pension Board are rotated each year. Following the appointment of Morag Lawrence as the member representative Chair for 2023/24, an employer representative will be required to act as Chair in 2024/25.

Under the Terms of Reference for the Pensions Board, representatives are appointed for a 4 year term, with the option of re-appointment for further terms.

Both Morag Lawrence and Alan Walker were re-appointed to the Board at the beginning of 2024.

Meeting Attendance

In compliance with the LGPS (Governance)(Scotland) Regulations 2015, the Pension Board;

- is to meet at the same place and time as the Pensions Committee of the Scheme Manager to consider the same agenda as the Committee, but
- the Pension Board may meet separately from the Pensions Committee with the agreement of the Pensions Committee.

Active participation during meetings as shown in the table below and a willingness to undertake training, clearly demonstrate the commitment of Board members to the continued effectiveness of the NESPF Pension Board.

Board Member	Meeting Attendance				
	23/06/23	15/09/23	25/09/23*	15/12/23	22/03/24
Employer					
Cllr Graham Leadbitter	✓	✓	✓	✓	N/A
Cllr Stephen Smith	✓	✓	✓	✓	✓
Cllr Jessica Mennie	✓	✓	✓**	✓	✓
Cllr David Gordon	N/A	N/A	N/A	✓***	✓
Jeremy Lindley	N/A	N/A	N/A	N/A	X
Ian Hodgson	✓	X	N/A	N/A	N/A
Member/ Union					
Gordon Walters	✓	✓	✓	X	✓
Morag Lawrence	✓	✓	✓	✓	✓
Neil Stirling	✓	✓	✓	✓	✓
Alan Walker	✓	✓	✓	✓	✓
Overall Attendance Rate	100%	88%	100%	88%	88%

Notes:

* Pension Board additional meeting

**Substitute sent – Cllr Neil Copland

*** Councillor David Gordon attended the meeting on 15 December 2023 in an observing role.

Meeting Content

The Pension Board receive the Pensions Committee reporting pack for each meeting which includes reports covering all six main areas of work for the Pension Fund; investment, accounting, governance, employer relationship, administration and systems.

The following reports were included as standard in the reporting packs during 2023/24:

Asset & Investment Manager Performance
Budget & Projected Spend
Strategy

In addition, the Committee also received reports and updates on:

Training	Statement of Accounts
Corporate Governance/ESG	Risk Management & Risk Register
External Audit	Internal Audit
Compliance Review	Valuation/Funding Strategy Statement
Annual Report & Accounts	PAS performance
Annual Benefit Statements	Pensions Committee Annual Effectiveness Report
Procurement	Investment Strategy



Financial Costs

The Pension Board carries out its role in a cost effective manner, mindful of delivering value for money. All costs are met by the Pension Fund.

During the period 2023/24 there continued to be mix of training attended, some in person, some hybrid and some totally online. We would expect costs to continue to increase as we are now “living with Covid” and more in person meetings and training events take place. In comparison, costs reported in 2022/23 were £2,321.80.

Costs during 2023/24

Train	£512.15
Hotels	£2,481.80
Total	£2,993.95

Training Requirements

The Public Service Pensions Act 2013 requires that members of local pension boards have an appropriate level of **knowledge and understanding** in order to carry out their role. These responsibilities begin from the date the member takes up their role on the pension board.

A member of the pension board of a public service pension scheme must be **conversant** with the rules of the scheme and any document recording policy about its administration which is for the time being adopted in relation to the scheme.

The Pensions Regulator’s General Code of Practice sets out the legal requirements for the knowledge and understanding requirements of pension board members. The Pension Fund must be able to demonstrate compliance with the Code.

The NESPF Pension Board’s training plan is subject to regular review and an annual training report is presented to the Pensions Committee. A copy of the Training Policy can be found at [Appendix II](#). A revised Training Policy was approved by the Pensions Committee in June 2023.

The NESPF is committed to supporting Board members to achieve the level of knowledge and understanding they require by providing the appropriate level of training and assistance; training is provided in line with the NESPF Training Policy and covers the following areas:

- Scheme Governance
- Investment Strategy
- Support Services
- Scheme Documentation

Board members are asked to carry out regular personal assessments to assess their overall knowledge and understanding levels based on CIPFA’s current Code of Practice and supporting framework. Pension Board members also undertook the Hymans Knowledge Progress Assessment (KPA) at the end of 2023. The KPA is a challenging multiple-choice assessment of participants knowledge and understanding of key pension areas covered by both the CIPFA Knowledge and Skills Framework and

the Pensions Regulator’s (tPR) Code of Practice. The feedback from which will be used to direct future training.

Training Attendance

Training offered and delivered during the year included the following:

- Introduction training delivered by Laura Colliss, Pensions Manager, for all new Committee and Board members;
- A variety of webinars covering topics from industry experts such as:
 - Pension Dashboards;
 - Cyber Risk;
 - Investment Markets;
- Actuarial training delivered by Mercer;
- The NESPF Finance Forum;
- Support in completing The Pension Regulators Public Service Toolkit and the Hymans Robertsons LGPS Online Learning Academy (Mandatory Training)

The availability of training opportunities has significantly increased across the Pensions industry in recent years which allows us to offer a wider range of training to our Board members. In addition to the mandatory training set out below, take up of additional training was high amongst Board members during 2023/24.

Pension Board - Mandatory Training Record as at 31 March 2024				
Name	Hymans Robertson LOLA Version 1.0	Hymans Robertson LOLA Version 2.0	TPR Toolkit**	Attended
Morag Lawrence	✓		✓	2/3
ClIr Stephen Smith	✓			1/3
ClIr Jessica Mennie				0/3
ClIr Graham Leadbitter				0/3
ClIr David Gordon*		✓		1/2
Ian Hodgson				0/3
Jeremy Lindley*				0/2
Neil Stirling	✓	✓	✓	3/3
Gordon Walters	✓			1/3
Alan Walker	✓	✓	✓	3/3

Notes:

* Mid year joiners/leavers.

**One substitute member has also completed the TPR Toolkit and LOLA Version 1.0

Hymans Robertson LOLA:

Version 1.0 24 June 2022 to 23 April 2023 and Version 2.0 24 April 2023 to 31 March 2024

TPR Toolkit

At the June 2019 meeting the Pensions Committee and Pension Board agreed:

To undertake the online E-Learning Public Service Toolkit produced by the Pensions Regulator as soon as possible and provide evidence of completion to the Pension Fund's governance manager (available at <http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx>)

The requirement to complete this training was formally noted most recently in June 2023 (PC/JUN23/TRA) and regular reminders are issued to both Committee and Board members in the monthly bulletins issued by the Governance Team.

The Pensions Regulator will be updating their Toolkit during 2024 following the introduction of the new General Code. Board members should aim to complete this important training *as soon as possible*.

Hymans LGPS Online Learning Academy (LOLA)

As per the Training Report and Training Policy approved by the Pensions Committee in June 2023 (PC/JUN23/TRA), it was recommended that Committee and Board members work through and complete the Hymans learning modules, and on an ongoing basis thereafter as new or updated modules were delivered. Board members should aim to complete this training *as soon as possible*.

Commitment to Training

Board members are expected to attend meetings and undertake training to ensure they maintain the prescribed knowledge and understanding levels required to be able to fulfil the responsibilities of the role. The Fund monitors attendance at meetings and training events on an ongoing basis.

Where a member fails to meet the minimum requirements set out in the Training Policy, and in the absence of mitigating factors, the member will be given a reasonable period of time to improve their attendance level. Should no clear improvement be demonstrated, the administering authority will take the necessary steps to terminate the individual's membership.

Code of Conduct, Conflicts of Interest & compliance with tPR

Code of Conduct

Members of the NESPF Pension Board agreed a Code of Conduct in April 2015 (for Non-Councillor members). It is the responsibility of the individual to ensure that they are familiar with, and that their actions comply with, its provisions. A copy of the national Code of Conduct for Councillors and guidance notes can be found at <http://www.standardscommissionscotland.org.uk>.

The key principles of the Code of Conduct are:

- Duty
- Selflessness
- Integrity
- Objectivity
- Accountability and Stewardship
- Openness
- Honesty
- Leadership
- Respect

Conflicts of Interest

Members of the NESPF Pension Board have agreed to a Conflicts of Interest Policy. The most recent version was updated and noted by the Pensions Committee in September 2023. It requires all members to notify NESPF of any potential conflicts of interest arising as a result of their position on the Board.

As a standing item at each Pensions Committee and Board meeting, members will be given the opportunity to declare their interest in any of the agenda items and any declared interests will be recorded in the formal minutes of the meeting. In addition, conflict of interest declaration forms will be issued by NESPF on appointment to the Board and are subject to regular monitoring during the term of appointment.

During 2023/24 the Pension Fund carried out an annual review by issuing each Board member with a declaration of interest form. The responses were recorded on the 'Conflicts Register' to facilitate ongoing monitoring and review by the Governance Team.

Compliance with tPR

The Pension Fund carries out a compliance review every six months, with annual reporting to the Pensions Committee. An assessment is made in terms of compliance with the Public Service Pensions Act 2013 and tPR General Code of Practice.

The most recent review carried out in December 2023, and reported to the Pensions Committee in March 2024, concluded that key controls for monitoring the ongoing compliance with legislation and tPR requirements are in place and working effectively.

Breaches of Law

There are certain people that are required to report breaches of the law to the Pensions Regulator where they have reasonable cause to believe that a legal duty which is relevant to the administration of the Scheme has not been, or is not being, complied with and the failure to comply is likely to be of material significance to tPR in the exercise of any of its functions.

Those people with a responsibility to report breaches, including Scheme Managers and Pension Board members shall establish and operate appropriate and effective procedures to ensure that they are able to meet their legal obligations.

Under the UK General Data Protection Regulation, organisations have a duty to report certain types of personal data breaches to the Information Commissioner within 72 hours of becoming aware of the breach, where feasible.

An updated Breaches of Law Policy was taken to the Pensions Committee in August 2022 following annual review and has undergone minor updates in 2023 and 2024.

There were no breaches reported to tPR or the Information Commissioner during the year 2023/24.

Risk Management

In line with CIPFA guidance issued in December 2018, the Pension Fund created its own Risk Management Policy and this was approved by the Pensions Committee in November 2019. The Policy was last updated in January 2023, with no further changes being made during the annual review in 2024. The changes in 2023, expand on the Fund's risk appetite following recommendations made during the recent Governance Audit.

The risk register for the Pension Fund identifies the significant risks that could have a material impact in terms of value, reputation, compliance or provision of service and sets out the action taken to mitigate these risks.

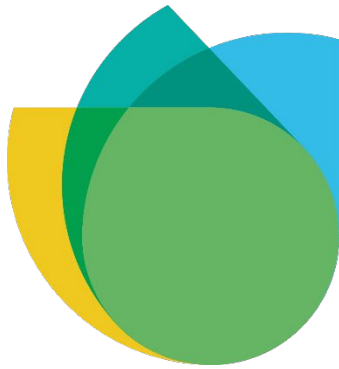
The register is reviewed regularly by the pensions management team and reported quarterly to the Pensions Committee and Board.



Work for 2024/25 onwards

The following areas will be looked at by the Committee & Board in the next 12 months (subject to review):

- Training Plan
- Risk Management & Risk Register
- Pension Fund Annual Report
- Annual review of scheme policy documents
- Compliance Review
- Internal/External Audit Plan and updates
- Conflicts of Interest declarations
- Breaches of Law
- Investment Strategy/ESG



North East Scotland Pension Fund

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Pension Board Terms of Reference

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Document	Pension Board Terms of Reference
Reviewed Date	May 2024
Approval Date	N/A
Author & Team	Mairi Suttie, Governance
Next Review Date	May 2025

Introduction

Each Local Government Pension Scheme Manager in Scotland is required to establish a Pensions Board separate from the Pensions Committee that acts as the Scheme Manager.

The North East Scotland Pension Board is established under the provisions of sections 5(1) and (2) of the Public Service Pensions Act 2013 and confirmed under the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015.

Objectives

The Pension Board as detailed in regulations is the body responsible for assisting the Scheme Manager in relation to compliance with scheme regulations and the requirements of the Pensions Regulator.

5(1) – There shall be established for each Scheme Manager a Pension Board with responsibility for assisting the Scheme Manager in relation to the following matters.

(2) Those matters are –

- (a) Securing compliance with the 2014 regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;*
- (b) Securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator;*
- (c) Such other matters as the 2014 regulations may specify*

The Pension Board will determine the areas they wish to consider including, amongst others:

- Reports produced for the Pensions Committee
- Seek reports from the Scheme Manager on any aspect of the Fund
- Monitor investments and the investment principles/strategy/guidance
- The Fund annual report
- External voting and engagement provisions
- Fund administrative performance
- Actuarial reports and valuations
- Funding policy
- Any other matters that the Pension Board deem appropriate

The Pension Board is not a decision making body.

The Pension Board is not a scrutiny function.

The Pension Board will be collectively and individually accountable to the Pensions Committee.

Membership

Membership of the Pension Board will consist of equal numbers of trade union representatives and employer representatives, drawn from councils and scheduled or admitted bodies in membership of the Fund. Pension Board representatives must also not participate in or act as members of the Pensions Committee. Local Authority employer representatives will normally be Elected Members serving as part of the Council.

There will be 4 trade union representatives appointed by the trade unions as follows:

GMB.....1
UCATT.....1
UNISON.....1
Unite.....1

There will be 4 employer representatives appointed by the respective employer organisations as follows:

Councils.....3
Other Scheduled/Admitted Bodies.....1

Pension Board representatives will serve for a period of four years and may be reappointed to serve further terms. Timescales for organisations to notify the Pension Board of their representatives shall be locally determined. Employer bodies and organisations retain the right to withdraw representatives and identify replacements on occasion.

Appointing bodies can appoint a named substitute for their representative. Such substitutes must undertake the same training as set out below.

Advisors may attend meetings of the Pension Board in a non-voting capacity.

No person may be appointed to the Pension Board that has a significant conflict of interest. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Pension Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme for which the board is established. The Pension Board will adopt policies and protocols for handling any conflicts that were unanticipated and might arise during membership.

Meetings

The Chair of the Pension Board will be rotated on an annual basis between the trade union and employer sides of the Pension Board.

Pension Board meetings will be administered by Aberdeen City Council as the administering authority as agreed with Joint Secretaries appointed by the trade union and employers sides of the Pension Board. All reasonable administration costs shall be met by the Fund.

The Pension Board should meet at least quarterly. A majority of either side may requisition a special meeting of the Pension Board in exceptional circumstances.

The Pension Board may establish sub-committees.

While the statutory roles and function of the Pensions Committee and Pension Board are separate, the normal practice will be that both bodies will meet at the same time to consider the same agenda, with the Chair of the Pensions Committee chairing the concurrent meeting. The aim is to engender a positive and proactive partnership culture where in practice the two bodies act as one.

Dispute resolution

If the Pensions Committee and Pension Board cannot reach joint agreement on any matter the process for resolving any differences between the two bodies will be as follows. Whilst this process is undertaken the decision of the Pensions Committee is still competent.

In the first instance, if at least half of the members agree, then the Pension Board can refer back a decision of the Pensions Committee for further consideration if any of the following grounds are met:

- That there is evidence or information which it is considered needs re-evaluating or new evidence or data which the Pensions Committee did not access or was not aware of at the point of decision making and which is considered material to the decision taken;
- That the decision of the Pensions Committee could be considered illegal or contrary to regulations
- That the decision of the Pensions Committee is contrary to a relevant Code of Practice published by the Pensions Regulator; or
- That the decision is not in the interest of the continued financial viability of the scheme or is against the principles of proper and responsible administration of the scheme.

If there is no agreement after the matter has been referred back to the Pensions Committee, then the difference in view between the Pension Board and the Pensions Committee will be published in the form of a joint secretarial report on the Fund website and included in the Fund annual report.

The Scottish LGPS Scheme Advisory Board may also consider and take a view on the matter and, if considered appropriate, provide advice to the Scheme Manager or the Pension Board in relation to the matter.

Training

All members (and named substitutes) of the Pension Board must undertake a training programme in accordance with any guidance issued by the Pensions Regulator and complying with best practice training requirements of the Pensions Committee.

The Pension Board shall agree policies and arrangements for the acquisition and retention of knowledge and understanding for Pension Board members.

The Scheme Manager will keep an updated list of the documents with which they consider Pension Board members need to be conversant to effectively carry out their role and make sure that both the list and the documents are accessible.

Access to Information

The Scheme Manager and Pension Board will together ensure that information is published about the activities of the board including:

- The full terms of reference for the Pension Board, including details of how they will operate;
- The Pension Board appointment process;
- Who each individual Pension Board member represents; and
- Any specific roles and responsibilities of individual Pension Board members.

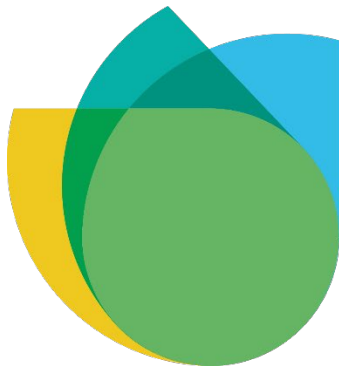
The minutes of the Pension Board will be published on the Fund website. The Pension Board may undertake such communications and stakeholder engagement as it deems appropriate to perform its functions.

Further Information

Any questions on this Statement should be forwarded to the **Governance Team**:

NESPF
Level 1, 2 MSq
Marischal Square
Broad Street
Aberdeen
AB10 1LP

Email: governance@nespf.org.uk
Web: www.nespf.org.uk



North East Scotland Pension Fund

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Training Policy

May 2023



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Document	Training Policy
Review Date	May 2023
Approval Date	June 2023
Author & Team	M Suttie, Governance
Review Date	May 2024

Purpose Statement

This statement details the training agenda for members of the Pensions Committee and Pension Board of the North East Scotland Pension Fund (NESPF), as administered by Aberdeen City Council.

The training policy is designed to support the Pensions Committee and Pension Board in performing and developing their individual roles, with the ultimate aim of ensuring NESPF is managed by members with the necessary skills and knowledge to effectively carry out their responsibilities.

Application & Scope

Expectations

The role of Pensions Committee or Pension Board member is an important one and there are certain expectations placed upon members, these include:

- A commitment to attend and participate in training events and to adhere to the principles of this Training Policy.
- The ability to use acquired knowledge to participate in meetings and to ask questions constructively of the information provided by officers, advisers and others.
- Judge the information provided in a fair and open-minded way that avoids pre-determining outcomes.
- Operate within the Terms of Reference for the Pensions Committee and the elected member Code of Conduct or the Terms of Reference for the Pension Board.

All Pension Fund Committee and Board members (including substitutes) to whom this policy applies are expected to continually demonstrate their own personal commitment to training to ensure they have the necessary skills required to support them in their decision-making role.

Induction Process

On appointment to the Pensions Committee or Board, a member will receive a formal induction by the Scheme Manager, as well as copies of and/or access to the key documentation relevant to the Fund and other useful information, including;

- [guide to the Local Government Pension Scheme \(LGPS\)](#)
- [the latest Annual Report and Accounts](#)
- [the most recent Actuarial Valuation and Funding Strategy Statement](#)
- [the Governance Policy and Compliance Statement](#)
- [the Statement of Investment Principles and Compliance with Myners Principles](#)
- [copy of the Local Government Pension Scheme \(Scotland\) Regulations](#)

The induction will provide an overview of the structure and operation of the Funds and insight into the responsibilities of their respective role.

Members of the Pensions Committee and Pension Board must complete, by their first meeting or within the first three months of their appointment, whichever is earlier, the online training course provided by The Pensions Regulator in their Public Service Toolkit.

Members of the Pensions Committee and Pension Board must complete, within the first twelve months of their appointment, the online training courses available on the Hymans Online Learning Academy (LOLA), with the first introductory module being completed before their first meeting.

Policy documentation is available to Committee and Board members via the Pension Fund website at www.nespf.org.uk and members should familiarise themselves with the information held on the site.

Training Plan

Myners Principles

As per the Myners Principles, administering authorities should ensure that:

- decisions are taken by persons or organisation with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation, and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Markets in Financial Instruments Directive (MiFID II) Requirements

Since the introduction of MiFID II from 3rd January 2018, financial institutions including the Local Government Pension Scheme (LGPS) are required to opt up to be classified as an elective professional client, to allow continued access to the full range of vehicles investment managers need to deliver the investment strategy.

To maintain this status, the Pension Fund needs to be able to demonstrate its expertise, experience and knowledge, such that the investment managers can gain reasonable assurance that it is capable of making investment decisions and understanding the nature of risks involved.

This training policy helps to ensure the assessed levels of expertise, experience and knowledge are maintained. The Pension Fund is required to keep this information under review and notify the investment managers of any changes to the collective circumstance which could affect its status.

Training Opportunities

The Pension Fund recognises that attaining, and then maintaining, relevant knowledge and skills is a continual process for the Pensions Committee and Pension Board members, and that training is a key element of this process.

Training is therefore ongoing for members and consideration will be given to the various training resources available, these may include (but are not limited to):

- employer and scheme member events hosted by the Pension Fund
- internally developed training days and pre/post meeting sessions
- seminars and conferences that are offered by industry wide bodies, specifically the LAPFF annual conference, LGC conferences and PLSA conferences
- on-line training including use of the Hymans Online Learning Academy (LOLA)
- seminars and training events offered by the Fund’s investment managers and advisors
- use of the secure ‘trustee’ area of the Pension Fund website
- in addition to the above, Fund officers are available to answer any queries from Committee and Board members.

Training is provided to members of the Pensions Committee and Pension Board through the above range of opportunities in respect of the following topics;

Scheme Governance	Investment Strategy	Support Services
LGPS Status and Legal Framework	Asset Classes	Custody Services
LGPS Regulations	Risk	Service Organisation
Role of Elected Members	Investment Structure	Role of the Chief Officer – Finance
Advisors and their Role	Investment Management and Performance Monitoring	Role of the Pensions Manager and Pensions Team
Actuarial Valuation and Funding Strategy Statement		
Myners Principles		
Risk Management		

Hymans LOLA

Hymans Online Learning Academy (LOLA) consists of 8 core modules, mirroring their LGPS National Knowledge Assessment topics, and covers all key areas needed to successfully manage the running of a Pension Fund:

- Financial Markets and Product Knowledge
- Pensions Governance

- Committee Role and Pensions Legislation
- Procurement and Relationship Management
- Actuarial Methods, Standards and Practices
- Investment Performance and Risk Management
- Pensions Administration
- Pensions Accounting and Audit Standards

There is also a current issues module which is regularly updated. Recent topics have included Pensions Dashboard, GAD Section 13 and Cyber Risk.

The Pensions Regulator’s E-Learning Toolkit

The Pensions Regulator has developed an on-line toolkit to help those running public service pension schemes to understand the governance and administration requirements set out in its Code of Practice No.14. There are eight short modules covering:

- Conflicts of Interest
- Managing Risk and Internal Controls
- Maintaining Accurate Member Data
- Maintaining Member Contributions
- Providing Information to Members and Others
- Resolving Internal Disputes
- Reporting Breaches of Law
- Pensions Scams (optional)

CIPFA Knowledge and Skills Framework

An updated Code of Practice and Knowledge and Skills Framework was published by CIPFA in 2021. The Fund has formally adopted the Framework and will assess all relevant individuals against the suggested standards ([Appendix I](#)).

The CIPFA framework sets out the following key areas:

- Pensions legislations and guidance
- Pensions governance
- Funding strategy and actuarial methods
- Pensions administration and communications
- Pensions financial strategy, management, accounting, reporting and audit standards
- Investment strategy, asset allocation, pooling, performance and risk management
- Financial markets and product knowledge

- Pensions services procurement, contract management and relationship management

Pensions Committee and Board members are expected to have collective understanding of these areas of knowledge and skills.

Pension Board Specific Requirements

In accordance with Section 248A of the Pensions Act 2004, and redrafted by the Public Service Pensions Act 2013, the members of the NESPF Pension Board must be conversant with:

- The rules of the scheme (the Local Government Pension Scheme (Scotland))
- Any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme

NESPF Pension Board members should also have knowledge and understanding of:

- The law relating to pensions
- Such other matters as may be prescribed

CIPFA have published a separate [Technical Knowledge and Skills Framework](#) for Local Pension Board members.

Policy Performance

Training attendance records will be maintained by the Pension Fund. These will be reported to the Pensions Committee and Board on an annual basis for consideration.

Where instances are identified of a Pension Board member not meeting the minimum training requirements (i.e. failing to attain and/or maintain the appropriate levels of knowledge and understanding as required under S.248A of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013) an initial discussion will be held to establish whether there are any extenuating circumstances; followed by:

- no further action (if extenuating circumstances are shown);
- agreement of an improvement plan; and

- If no improvement can be demonstrated over a reasonable period of time, necessary steps will be taken to remove the Board member and seek a new appointee.

Supporting Procedures & Documentation

This policy is supported by the policies and procedures that make up the wider governance framework and those prescribed by the Local Government Pension Scheme (Scotland) Regulations. Copies of which are available online at www.nespf.org.uk.

In addition to the training policy, both the Convener and Vice Convener of the Pensions Committee have been provided with a description of their roles and provided further details of training requirements ([Appendix II](#)).

Responsibilities

All training costs are met directly by the Pension Fund.

The Pensions Committee will review this policy annually, or in the event of a policy revision and taking account of the results from any training needs analysis and emerging issues.

Day to day responsibility for the implementation of this policy sits with the Chief Officer-Finance and dedicated staff within the Pension Fund section.

Any questions or feedback on this document should be forwarded to the NESPF Governance Team at:

Resources
Level 1, 2MSq
Marischal Square
Broad Street
Aberdeen
AB10 1LP

Email: governance@nespf.org.uk

Web: www.nespf.org.uk

CIPFA Knowledge and Skills Framework

This framework identifies the level of knowledge required by Pensions Committee members and senior officers to ensure that they can carry out effective decision making in respect of the Fund.

Level of knowledge required

For committee members:

- An awareness i.e. recognition that the subject matter exists
- A general understanding i.e. understanding the basis in relation to the subject matter
- A strong understanding i.e. a good level of knowledge in relation to the subject matter but not necessary at a detailed level

For senior officers:

- a strong understanding i.e. a good level of knowledge in relation to the subject matter (but not necessary at a detailed level)
- a detailed level of knowledge in relation to the subject matter
- an expert level of knowledge in relation to the subject matter

CIPFA Knowledge and Skills	
Pensions and Guidance	<p>Legislations</p> <p>General Pensions Framework</p> <p>A general understanding of the pensions legislative framework in the UK.</p>

	<p>A general understanding of other legislation that is relevant in managing an LGPS fund, e.g. freedom of information, General Data Protection Regulation (GDPR) and local authority legislation.</p> <p>Scheme-specific legislation</p> <p>A general understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration, funding, governance, communications and investment, including:</p> <p>A general understanding of the LGPS (Scotland) Regulations 2018 A general understanding of the LGPS (Scotland) (Management and Investment of Funds) Regulations 2010</p> <p>An awareness of LGPS discretions and how the formulation of the discretionary policies impacts on the Fund, employers and scheme members.</p> <p>A regularly updated awareness of the latest changes to the scheme rules and current proposals or potential changes to the scheme.</p> <p>Guidance</p> <p>A general understanding of the requirements of statutory guidance from the Responsible Authority, Scottish Government.</p>
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	<p>A general understanding of the requirements of tPR's Code of Practice.</p> <p>An awareness of the requirements of guidance from the Scheme Advisory Board.</p> <p>An awareness of requirements of guidance from the Government Actuary's Department.</p> <p>An awareness of other guidance relevant to the LGPS, such as from CIPFA.</p>
Pensions Governance	<p>An awareness of the LGPS regulations main features and requirements relating to pension scheme governance.</p> <p>An awareness of statutory and other guidance relating to pension scheme governance including statutory governance guidance, tPR Code of Practice, CIPFA/SOLACE, Scheme Advisory Board guidance and the Myners Principles.</p> <p>Pension regulators, Scheme Advisory Board and other bodies</p>

A general understanding of how the roles and powers of the Scottish Government, tPR, the Money and Pensions Service and the Pensions Ombudsman relate to the workings of the scheme. A general understanding of the role of the Scheme Advisory Board and how it interacts with other bodies.

General constitutional framework

A general understanding of the role of the administering authority in relation to the LGPS.

A general understanding of the role of the pension committees in relation to the Fund, administering authority, employing authorities, scheme members and taxpayers.

An awareness of the role and statutory responsibilities of the Chief Financial Officer (CFO) and monitoring officer.

Fund specific governance

A strong understanding of the terms of reference and delegated responsibilities of the Pensions Committee (including any sub-committees), the Pension Board and any other delegated responsibilities to senior officers.

A general understanding of the stakeholders of the Fund and the nature of their interests.

A general understanding of who the key officers responsible for the management of the Fund are, how the pension team is structured and how services are delivered.

A general understanding of the Fund's strategies, policies and other key documents.

A general understanding of how risk is monitored and managed, and the Fund's current key risks.

A general understanding of how conflicts of interest are identified and managed.

A strong understanding of how breaches of law are recorded and managed, and if necessary reported to tPR, including each individual's personal responsibility in relation to breaches.

A general understanding of the Fund's knowledge and skills policy and associated training requirements.

An awareness of the Fund's process for dealing with complaints, including its Internal Dispute Resolution Procedure.

	<p>A general understanding of how the effectiveness of the Fund’s governance is reviewed.</p> <p>Service Delivery</p> <p>A general understanding of the required budget and resources needed to manage and administer the Fund.</p> <p>A general understanding of the annual business planning cycle and budget setting.</p> <p>A general understanding of the Fund’s key performance indicators and other performance measures.</p> <p>A general understanding of the Fund’s business continuity policy and cyber security policy.</p>
Funding strategy and actuarial methods	<p>An awareness of the LGPS regulations main features and requirements relating to funding strategy and the setting of employer contributions including associated guidance.</p> <p>A general understanding of the role of the Fund actuary.</p>

	<p>A general understanding of the funding strategy statement and the expected delivery of the funding objectives.</p> <p>A general understanding of the key risks to the Fund relating to the funding strategy.</p> <p>Valuations</p> <p>A general understanding of the valuation process, including developing the funding strategy in conjunction with the Fund actuary, and inter-valuation monitoring.</p> <p>An awareness of the costs to the employer including employer contributions and early retirement strain costs.</p> <p>An awareness of the different types of employers that participate in the Fund.</p> <p>A general understanding of the importance of employer covenant, the relative strengths of the covenant across the Fund's employers, and how this impacts the funding strategy statement adopted.</p> <p>A general understanding of any legislative and/or benefit uncertainty and the impact of this on the funding strategy.</p>
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	<p>A general understanding of the Scheme valuation and other work carried out by the Government Actuary's Department and the impact this has on the valuation process (i.e. cost management process/Section 13 report).</p> <p>New employer and exits</p> <p>A general understanding of the implications of including new employers into the Fund and of the exits of existing employers.</p> <p>A general understanding of the relevant considerations in relation to the different types of new employer, e.g. outsourcings, alternative delivery models and also the considerations in relation to bulk transfers.</p>
Pensions administration and communications	<p>An awareness of the LGPS regulations main features and requirements relating to:</p> <ul style="list-style-type: none">• Administration and communications strategies;• Entitlement to and calculation of pension benefits;• Transfers in and out of the scheme;• Employee contributions; and• The delivery of administration and communications. <p>Including associated guidance.</p>

	<p>A general understanding of the Fund's Pensions Administration Strategy including how it is delivered (including, where applicable, the use of third party suppliers and systems), performance measures and assurance processes.</p> <p>A general understanding of the Fund's communications policy including how it is delivered (including, where applicable, the use of third party suppliers and systems), performance measures and assurance processes.</p> <p>A general understanding of best practice in pensions administration, e.g. performance and cost measures.</p> <p>A general understanding of the Fund's processes and procedures relating to:</p> <ul style="list-style-type: none">• Member data maintenance and record-keeping including data improvement plans and relationships with employers for data transmission• Contributions collection <p>An awareness of how the Fund interacts with the taxation system in relation to benefits administration, including the annual and lifetime allowances.</p> <p>A general understanding of additional voluntary contribution (AVC) arrangements including:</p> <ul style="list-style-type: none">• The AVC arrangements that exist• The choice of investments to be offered to members• The provider's investment and fund performance• The payment of contributions to the provider• The benefits that can be received by scheme members• How and when the AVC arrangements, including the investment choices, are reviewed.
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<p>Pensions financial strategy, management, accounting, report and audit standards</p>	<p>A general understanding of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the Fund’s accounts and annual report.</p> <p>A general understanding of the various elements of income and expenditure to the Fund, including the operational budget.</p> <p>A general understanding of the cashflows of the Fund and how risks are managed to ensure appropriate cash is available to pay benefits and other outgoings.</p> <p>A general understanding of the role of both internal and external audit in the governance and assurance process.</p>
<p>Investment strategy, asset allocation, pooling, performance and risk management</p>	<p>An awareness of the LGPS regulations main features and requirements relating to investment strategy, asset allocation, the pooling of investments and responsible investments including associated guidance.</p> <p>Investment strategy</p>

	<p>A general understanding of the key risks that the Fund is exposed to and how a Fund's investment strategy should be considered in conjunction with these risks.</p> <p>A general understanding of the risk and return characteristics of the main asset classes (equities, bonds, property), and the need to balance risk versus reward when determining the investment strategy.</p> <p>A general understanding of the role of these asset classes in long-term pension fund investing.</p> <p>A general understanding of the Fund's cashflow requirements and how this impacts on the types of investments considered.</p> <p>Total Fund</p> <p>A general understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.</p> <p>Performance of the committee</p> <p>An awareness of the Myners principles and the need to set targets for the committee and to report against them.</p>
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An awareness of the range of support services provided to the committee, who supplies them, and the nature of the performance monitoring regime.

Responsible investment

An awareness of the latest developments and requirements in the area of responsible investment.

An awareness of the UK Stewardship Code and the United Nations Principles of Responsible Investment (UNPRI) and whether the Fund is signatory to these.

A general understanding of the Fund's approach to responsible investment including how views on Environmental, Social and Governance issues are incorporated into the Fund's investment strategy.

Risk Management

A general understanding about how to manage and reduce risk and lessen impact of risk on assets when it arises.

<p>Financial markets and products knowledge</p>	<p>Financial Markets</p> <p>A general understanding of the primary importance of the investment strategy decision.</p> <p>A general understanding of the workings of the financial markets and of the investment vehicles available to the Pension Fund and the nature of associated risks.</p> <p>An awareness of the restrictions placed by legislation on the investment activities of LGPS Funds.</p> <p>MiFID II</p> <p>A general understanding of MiFID II requirements relating to the knowledge of decision makers.</p>
<p>Pensions services procurement, contract management and relationship management</p>	<p>Understanding public procurement</p> <p>An awareness of the main public procurement requirements of UK and EU legislation and the use of national frameworks within the context of the LGPS.</p>

Fund suppliers

Awareness of the key decision makers in relation to the Fund's procurements.

A general understanding of the Fund's suppliers and providers, and their roles in the management of the Fund.

An awareness of how the Fund's suppliers are monitored, including:

The Myners Principles, and
The need for strategic objectives for investment consultants

Supplier risk management

A general understanding of the nature and scope of risks for the Pension Fund and of the importance of considering risk factors when selecting external suppliers and providers.

A general understanding of how the Pension Fund monitors and manages the performance of their external suppliers and providers, including business continuity and cyber risk.

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Role Profile for Convener of the Pensions Committee

The role of the Convener of the Pensions Committee requires post holders who have a wide experience of chairing meetings effectively, are good communicators and have at least some knowledge of pensions, financial or HR matters (through Council, personal and/or career experience).

The above Knowledge Framework is developed further for the Convener (and, by implication, the Vice Convener) in the following paragraphs by introducing key skills elements unique to the Convener. This includes an expectation that the Convener should individually have the appropriate level of knowledge in relation to all the competencies in Annex I but noting that in some cases it will be necessary for a higher level of knowledge to be attained in some areas. The administering authority should ensure the Convener is provided with the appropriate training to meet these requirements, preferably within six months of appointment.

1. Convener of the Pensions Committee to preside over the determination of the following, after taking the advice of the Chief Officer – Finance and other advisors:
 - The investment strategy of the Fund or Funds for which the Pensions Committee is responsible
 - The contribution rates of the employing organisations whose current and retired employees are members of the LGPS
 - The appointment of investment and actuarial advisors and other third party services
 - The governance framework
 - The communication strategy of the Fund or Funds

2. And to monitor:
 - The performance of the investments, the pensions administration service, the advisors and agents of the Fund and of the Committee itself

- The costs of running the Pension Fund and Scheme
- Comments and feedback from stakeholders

3. And to approve:

- The annual report and accounts of the Fund(s)
- Audit reports on the performance of the Pension Fund service
- Statements on Investment Principles, Governance, Administration and Communication
- The Risk Register and an annual risk analysis
- The medium term business plan and annual updates
- Training and development plans and updates
- Discretions given by statute and regulation to the Pensions Committee in relation to benefits under the LGPS

4. Work with the Chief Officer - Finance and other officers and advisors to plan an effective work programme for the Pensions Committee

5. Report to the administering authority and other employers, as stakeholders, using practical and appropriate means of communication, to give assurances about the Fund's financial statements, risk management and internal control mechanisms

6. Receive regular briefings from the Chief Officer - Finance and other advisors to understand the context and importance of forthcoming issues

EXPECTED SKILLS AND CHARACTERISTICS REQUIRED FOR CONVENER

Requirement	Essential	Desirable
1. Educational	A strong understanding of pensions, financial or HR matters (through council, personal and/or career experience).	Demonstrable evidence of knowledge kept up to date. Knowledge of pension funds and schemes.

	Commitment to individually achieving the required level of knowledge in relation to the CIPFA Framework competencies (or alternative requirements as set out by the administering authority).	
2. Work Experience	<p>Political awareness in numerous political environments.</p> <p>Chairing high level partnership meetings achieving effective outcomes.</p> <p>Has operated for 10 years at a senior level.</p> <p>Experience of risk and performance frameworks.</p>	Previously chaired a pensions committee or similar.
3. Abilities, Intelligence & Special Aptitudes	<p>Chairing skills.</p> <p>Influencing and consensus building.</p> <p>Listening skills.</p> <p>Able to assimilate complex information.</p>	<p>Mathematical/statistical literacy.</p> <p>Knowledge of public sector and local government finance.</p>

	Communication and engagement skills.	
4. Adjustment & Social Skills	<p>Ability to establish and maintain good working relationships with councillors, officers and advisors.</p> <p>Able to direct discussions in politically sensitive environments.</p> <p>Able to command respect and demonstrate strong leadership.</p> <p>Assertive in pursuing the correct course of action.</p> <p>Able to work effectively with colleagues who may have different levels of experience and understanding.</p>	Diplomacy and tact.
5. Motivation	<p>Enthusiastic, not easily deterred and able to convey enthusiasm to others.</p> <p>Committed to the objectives of the Fund.</p>	
6. Equal Opportunities	Understanding of and commitment to promoting equality of opportunity with an understanding of the pension context.	

Compliance with the Job Description

1. Pensions Legislative and Governance context

- 1.1 The pension's landscape is characterised by a complex legislative framework. In addition to the legislation of individual schemes, there are industry-wide statutes that apply in whole or in part to public sector schemes, including the way in which schemes interact with state pensions etc.
- 1.2 Also of key importance is a knowledge of the governance frameworks that apply within the pensions industry (such as the Myners principles); within individual schemes (such as the LGPS governance statement requirements); and within the organisations that administer the schemes (for example the CIPFA/SOLACE framework *Delivering Good Governance in Local Government*).

Full details of the scheme governance documentation and wider pension fund industry documentation can be found on the Pension Fund website and in the secure trustee area. In addition to this information regular training sessions are held for 'trustees' given by officers, fund managers, the scheme actuary and other advisors. In order to maintain an up-to-date knowledge of the pensions landscape the Convener/Vice Convener must commit to attending a minimum of two UK wide pension conferences per annum. Other events arising during the year that would be of value to the Convener/Vice Convener of the Pensions Committee will be brought to the attention of members by officers.

2. Pensions accounting and auditing standards

- 2.1 The accounting requirements and associated disclosures are complex and involve a large actuarial element. Consequently this demands an understanding of the regime at all levels within the finance structure in order to comply with the requirements and to communicate the requirements and their implications both internally and externally.

Officers report annually to the Pensions Committee on the scheme annual accounts. From 2011 the scheme accounts and audit have been separated out from the administering authority financial statement. The scheme auditor reports directly to the Pensions Committee on the scheme accounts.

3. Investment performance and risk management

- 3.1 In the Local Government Pension Scheme and other schemes where contributions are invested and managed to meet future liabilities, understanding investment risk and performance constitutes a major element of the role of finance professionals. The skills required for managing and controlling investment activities are relatively specialised and at present there is no formal framework against which Funds can test their current skills and competencies.

All investment performance and risk management is reported by the Fund custodian. Regular training sessions are given to all Committee members on understanding investment performance and risk reporting. Understanding investment performance and risk are key functions of the Convener and Vice Convener of the Pensions Committee.

4. Financial markets and product knowledge

- 4.1 In those schemes with invested funds, an understanding of financial markets and products is fundamental. The depth of knowledge will depend to some degree upon the particular approach to investment management undertaken by the Fund. The investment activities of LGPS Funds for example can be split into two groups - those Funds that use external managers to manage all of their investment portfolio and those that undertake some or all of their investment activities using in-house investment managers.

The time given during the quarterly meetings of the Pensions Committee to reviewing financial markets and product knowledge is limited. This fundamental knowledge should be updated regularly not only by the Convener and Vice Convener, but all 'trustees' through attendance at a minimum of one investment conference per annum. There is a wide selection of national conferences such as the PLSA Investment Conference, however there are also a wide number of conferences hosted by fund managers to which 'trustees' are invited. Likewise attendance at such events as the LAPFF annual conference provides 'trustees' with an insight to future legislation that may impact on the companies in which we invest. A list of forthcoming conferences is reported annually to the June meeting of the Pensions Committee.

5. Actuarial methods, standards and practices

- 5.1 The scheme actuary holds a key position in the financial management of a pension scheme. A successful pension scheme financial manager will need to be able to do more than simply manage the relationship with their actuary. They will need to understand, at some levels in detail, the

work of the actuary and the way in which actuarial information is produced and the impact it has on both the finances of the scheme and the employer.

The triennial valuation and funding strategy statement are two key documents in the governance of the scheme. A copy of both documents can be found on the secure 'trustee' area of the Pension Fund website. Through regular meetings with the scheme actuary the Convener/Vice Convener, will build up an understanding of the actuarial process and role and influence that key stakeholders such as the Convener and Vice Convener have in the process. Discussions held with other LGPS 'trustees' on an ongoing basis will enhance this process.

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